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SANDY HOOK PROMISE FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

SANDY HOOK PROMISE FOUNDATION, INC.

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Independent Auditors' Report

To the Board of Directors
Sandy Hook Promise Foundation, Inc.

We have audited the accompanying financial statements of Sandy Hook Promise Foundation, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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 auditors consider 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 Sandy Hook Promise Foundation, Inc., as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

Shelton, Connecticut
October 24, 2017

SANDY HOOK PROMISE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,874,276	\$ 1,013,565
Investments	11,807	2,844
Accounts receivable	158,603	136,700
Due from related party	12,791	-
Inventory	3,173	4,316
Prepays and other current assets	143,140	28,432
Property, furniture and equipment, net	<u>792,106</u>	<u>466,701</u>
Total Assets	<u>\$ 2,995,896</u>	<u>\$ 1,652,558</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 152,775	\$ 61,571
Mortgage payable	326,525	331,200
Notes payable - related parties	40,000	80,000
Deferred revenue	10,631	-
Total liabilities	<u>529,931</u>	<u>472,771</u>
Net Assets		
Unrestricted net assets	2,255,965	1,164,787
Temporarily restricted net assets	<u>210,000</u>	<u>15,000</u>
Total net assets	<u>2,465,965</u>	<u>1,179,787</u>
Total Liabilities and Net Assets	<u>\$ 2,995,896</u>	<u>\$ 1,652,558</u>

The accompanying notes are an integral part of the financial statements

SANDY HOOK PROMISE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Revenue, support and other changes:		
Contributions	\$ 5,246,624	\$ 3,328,512
In-kind contributions	3,910	32,994
Special events	691,235	894,598
Merchandise sales:		
Sales	21,909	23,562
Cost of sales	11,508	10,935
Net merchandise sales	<u>10,401</u>	<u>12,627</u>
Investment Income	8,194	955
Other income	412	703
Net assets released from restrictions	<u>15,000</u>	<u>3,799</u>
Total revenues, support and other changes	<u>5,975,776</u>	<u>4,274,188</u>
 Expenses:		
Program services	3,509,149	2,698,957
Management and general	263,757	182,289
Fundraising	<u>1,111,692</u>	<u>708,135</u>
Total expenses	<u>4,884,598</u>	<u>3,589,381</u>
 Increase in unrestricted net assets	<u>1,091,178</u>	<u>684,807</u>
Changes in Temporarily Restricted Net Assets		
Contributions	210,000	-
Net assets released from restriction	<u>(15,000)</u>	<u>(3,799)</u>
Increase (decrease) in temporarily restricted net assets	<u>195,000</u>	<u>(3,799)</u>
 Increase in Net Assets	 1,286,178	 681,008
 Net Assets - Beginning of Year	 <u>1,179,787</u>	 <u>498,779</u>
 Net Assets - End of Year	 <u>\$ 2,465,965</u>	 <u>\$ 1,179,787</u>

The accompanying notes are an integral part of the financial statements

SANDY HOOK PROMISE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 1,286,178	\$ 681,008
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,491	12,932
Contributions of investment securities	(17,520)	-
Forgiveness of note payable in lieu of contribution	(40,000)	-
Net realized and unrealized gains on investments	(3,180)	(464)
Loss on disposal of property, furniture and equipment	17,326	-
(Increase) decrease in operating assets:		
Accounts receivable	(21,903)	50,065
Due from related party	(12,791)	-
Inventory	1,143	3,284
Prepays and other current assets	(114,708)	(16,337)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	91,204	(19,574)
Deferred revenue	10,631	-
Net cash provided by operating activities	<u>1,208,871</u>	<u>710,914</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	11,737	-
Purchases of property, furniture and equipment	(355,222)	(110,023)
Net cash used in investing activities	<u>(343,485)</u>	<u>(110,023)</u>
Cash Flows from Financing Activities		
Proceeds from notes payable - related parties	-	80,000
Principal payments on mortgage payable	(4,675)	(800)
Net cash provided by (used in) financing activities	<u>(4,675)</u>	<u>79,200</u>
Net Increase in Cash and Cash Equivalents	860,711	680,091
Cash and Cash Equivalents - Beginning of Year	<u>1,013,565</u>	<u>333,474</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,874,276</u>	<u>\$ 1,013,565</u>

The accompanying notes are an integral part of the financial statements

SANDY HOOK PROMISE FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Personnel costs	\$ 1,203,946	\$ 231,055	\$ 302,427	\$ 1,737,429	\$ 796,836	\$ 94,123	\$ 178,620	\$ 1,069,579
Advertising	800,049	-	50,000	850,049	431,411	-	184,890	616,301
Program development	900,762	-	-	900,762	516,240	-	-	516,240
Contractual services	69,972	1,887	187,314	259,173	365,633	40,626	71,693	477,952
Special events	-	-	334,698	334,698	182,714	-	182,714	365,428
Travel and conferences	199,730	17,926	36,813	254,469	199,095	23,517	44,628	267,240
Office expenses	152,470	1,578	46,121	200,169	112,966	13,344	25,322	151,632
Business expenses	5,291	384	105,533	111,208	47,028	5,555	10,542	63,125
Facilities and maintenance	141,140	10,276	45,817	197,233	27,219	3,215	6,102	36,536
Depreciation	8,939	651	2,902	12,491	9,634	1,138	2,160	12,932
Other expenses	-	-	67	67	6,530	771	1,464	8,765
Awards and grants	26,850	-	-	26,850	3,651	-	-	3,651
	<u>\$ 3,509,149</u>	<u>\$ 263,757</u>	<u>\$ 1,111,692</u>	<u>\$ 4,884,598</u>	<u>\$ 2,698,957</u>	<u>\$ 182,289</u>	<u>\$ 708,135</u>	<u>\$ 3,589,381</u>

The accompanying notes are an integral part of the financial statements

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Sandy Hook Promise Foundation, Inc. (the Foundation) is a Connecticut nonstock, not-for-profit corporation. The Foundation's mission is to prevent gun-related deaths due to crime, suicide and accidental discharge so that no other parent experiences the senseless, horrific loss of their child. The Foundation does this by providing free programs to schools and youth organizations throughout the United States that teach youth and adults how to identify, intervene and get help for individuals before they hurt themselves or others. During the year ended June 30, 2017, the Foundation received a contribution to continue the work of Dylan's Wings of Change as a program of the Foundation. Dylan's Wings of Change had previously been a fiscally-sponsored project of the New Venture Fund, a 501(c)(3) nonprofit organization located in Washington, D.C. Total assets related to Dylan's Wings of Change of approximately \$213,000 were contributed into the Foundation during the year ended June 30, 2017.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (accounting standards). Accordingly, the accounts of the Foundation are reported in the following net asset categories:

Unrestricted Net Assets

Unrestricted net assets represent available resources that are free of donor-imposed restrictions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions which are restricted by the donor as to purpose or time of expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation did not have any permanently restricted net assets as of June 30, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting standards requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the date they are received. Realized and unrealized gains include the Foundation's gains and losses on investments bought and sold as well as held during the period.

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors determines the Foundation's valuation policies and procedures utilizing information provided by asset custodians and fund managers.

Accounts Receivable

Accounts receivable consists of amounts due from special event attendees. Accounts receivable balances are written off when management has concluded that all reasonable methods of collection have been exhausted. Based on management's assessment of outstanding balances, it has concluded that there is no reserve for uncollectible amounts at June 30, 2017 and 2016.

Inventory

Inventory consists of apparel and other merchandise that are held for resale and is stated at the lower of cost or market on the first-in first-out (FIFO) basis.

Property, Furniture and Equipment

Property, furniture and equipment acquisitions and improvements thereon that are \$1,000 or above are capitalized at cost, while repairs and maintenance are charged to expense as incurred. Depreciation and amortization are computed on the straight-line method based on estimated useful lives of the respective assets as follows:

Buildings and improvements	12-40 years
Furniture and equipment	3-5 years

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one period are discounted to their present value. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Property and Services

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation. Donated property and the use of equipment and facilities are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor. While many individuals volunteer their time and perform a variety of tasks that assist the Foundation, no amounts have been recognized in the accompanying financial statements for such services because the criteria for recognition of such volunteer efforts have not been met.

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Functional Expense Allocation

Expenses are charged directly to program services, management and general and fundraising, based on specific identification to the extent practicable. Expenses related to more than one function have been allocated based on periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with a specific function, but provide for the overall support and direction of the Foundation.

Income Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through October 24, 2017, which represents the date the financial statements were available to be issued.

NOTE 3 - CONCENTRATIONS

The Foundation's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents and investments.

Cash and Cash Equivalents

The Foundation places its cash and cash equivalent deposits with high credit-quality institutions. Such deposits exceed federal depository insurance limits at times during the period. However, management believes that these deposits are not subject to significant credit risk.

Investments

Investments are comprised of various common stocks. The value of investments is subject to fluctuations due to general market conditions and changes in interest rates.

NOTE 4 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common Stocks

These items are valued at the closing price reported in the active market in which the individual securities are traded.

There have been no changes in the methodologies used at June 30, 2017 and 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of all investments are determined using quoted prices for identical assets in active markets in which the Foundation has access (Level 1).

The Foundation had common stocks with a fair value of \$11,807 and \$2,844, as of June 30, 2017 and 2016, respectively.

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 264,970	\$ 264,970
Building and improvements	508,291	163,448
Furniture and equipment	40,669	52,606
Construction in progress	-	13,605
Leasehold improvements	-	9,182
	<u>813,930</u>	<u>503,811</u>
Less accumulated depreciation	<u>21,824</u>	<u>37,110</u>
Property, Furniture and Equipment, Net	<u>\$ 792,106</u>	<u>\$ 466,701</u>

NOTE 6 - MORTGAGE PAYABLE

On April 27, 2016, the Foundation purchased property in Newtown, Connecticut, and entered into a mortgage payable agreement with Newtown Savings Bank in the amount of \$332,000. The mortgage has a fixed interest rate of 5% per annum with monthly principal and interest payments of \$1,782 through April 27, 2046. The note is secured by the Foundation's property in Newtown, Connecticut. The Foundation had an outstanding balance of \$326,525 and \$331,200 on this mortgage payable as of June 30, 2017 and 2016, respectively. Interest expense totaled \$16,712 and \$2,765 for the years ended June 30, 2017 and 2016, respectively.

Aggregate principal maturities of the mortgage payable in subsequent years are as follows:

Year Ending June 30

2018	\$ 5,192
2019	5,457
2020	5,737
2021	6,030
2022	6,339
Thereafter	<u>297,770</u>
	<u>\$ 326,525</u>

NOTE 7 - NOTES PAYABLE - RELATED PARTIES

The Foundation entered into two \$40,000 noninterest-bearing notes with current Board members to assist with the purchase of property during the year ended June 30, 2016. These notes have no set repayment terms. During the year ended June 30, 2017, one of the notes for \$40,000 was forgiven by a Board member as a contribution to the Foundation. The outstanding balance on these notes was \$40,000 and \$80,000 as of June 30, 2017 and 2016, respectively.

SANDY HOOK PROMISE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Say Something Anonymous Reporting System	\$ 210,000	\$ -
Promise Communities - Ohio Conference	<u>-</u>	<u>15,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 210,000</u>	<u>\$ 15,000</u>

Net assets released from donor restrictions by incurring expenses satisfying the restrictions were \$15,000 and \$3,799 for the years ended June 30, 2017 and 2016, respectively, which were utilized for Promise Communities - Ohio Conference and Community Fund purposes, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

Foundation expenses of \$89,250 incurred per the cost-sharing agreement were charged to the Sandy Hook Promise Action Fund, Inc. (Action Fund) for the year ended June 30, 2017. For the year ended June 30, 2016, expenses of \$63,026 relating to the cost-sharing agreement with the Action Fund were incurred as allowable advocacy expenditures and recognized within the Foundation's financial statements. As of June 30, 2017 and 2016, the amount due from the Action Fund was \$12,791 and \$-0-, respectively.

As discussed in Note 7, during the year ended June 30, 2016, the Foundation entered into two, \$40,000, non-interest bearing notes for the purchase of 13 Church Hill Road, Newtown, Connecticut, with two current Board members. During the year ended June 30, 2017, one of the notes for \$40,000 was forgiven by a Board member as a contribution to the Foundation.