

FINANCIAL STATEMENTS

OUR MILITARY KIDS, INC.

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

OUR MILITARY KIDS, INC.

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Our Military Kids, Inc.
McLean, Virginia

We have audited the accompanying statements of financial position of Our Military Kids, Inc. (OMK) as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of OMK's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OMK as of December 31, 2008 and 2007, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

June 29, 2009

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OUR MILITARY KIDS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008 AND 2007

ASSETS		<u>2008</u>	<u>2007</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	2,219,704	\$ 452,577
Grants receivable (Note 6)		-	1,000,000
Contracts receivable		181,587	27,201
Other receivables		<u>544</u>	<u>12</u>
Total current assets		<u>2,401,835</u>	<u>1,479,790</u>
PROPERTY AND EQUIPMENT			
Computers and related equipment		35,327	17,567
Less: Accumulated depreciation and amortization		<u>(13,813)</u>	<u>(6,045)</u>
Net property and equipment		<u>21,514</u>	<u>11,522</u>
NONCURRENT ASSETS			
Grants receivable, net of current portion (Note 6)		932,401	1,801,772
Security deposit		<u>3,500</u>	<u>1,553</u>
Total noncurrent assets		<u>935,901</u>	<u>1,803,325</u>
TOTAL ASSETS	\$	<u>3,359,250</u>	\$ <u>3,294,637</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	<u>-</u>	\$ <u>806</u>
NET ASSETS			
Unrestricted		1,344,023	460,927
Temporarily restricted (Note 2)		<u>2,015,227</u>	<u>2,832,904</u>
Total net assets		<u>3,359,250</u>	<u>3,293,831</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>3,359,250</u>	\$ <u>3,294,637</u>

See accompanying notes to financial statements.

OUR MILITARY KIDS, INC.

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions and grants	\$ 544,906	\$ 259,429	\$ 804,335
Contracts	1,118,755	-	1,118,755
Interest	23,759	-	23,759
In-kind contributions (Note 5)	60,333	6,176	66,509
Net assets released from donor restrictions - satisfaction of donor restrictions (Note 3)	<u>1,083,282</u>	<u>(1,083,282)</u>	<u>-</u>
Total revenue	<u>2,831,035</u>	<u>(817,677)</u>	<u>2,013,358</u>
EXPENSES			
Program Services	<u>1,850,208</u>	<u>-</u>	<u>1,850,208</u>
Supporting Services:			
Management and General	45,174	-	45,174
Fundraising	<u>52,557</u>	<u>-</u>	<u>52,557</u>
Total supporting services	<u>97,731</u>	<u>-</u>	<u>97,731</u>
Total expenses	<u>1,947,939</u>	<u>-</u>	<u>1,947,939</u>
Changes in net assets	883,096	(817,677)	65,419
Net assets at beginning of year	<u>460,927</u>	<u>2,832,904</u>	<u>3,293,831</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,344,023</u>	<u>\$ 2,015,227</u>	<u>\$ 3,359,250</u>

See accompanying notes to financial statements.

<u>2007</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 760,290	\$ 2,913,272	\$ 3,673,562
83,700	-	83,700
4,693	-	4,693
13,389	10,384	23,773
<u>107,579</u>	<u>(107,579)</u>	<u>-</u>
<u>969,651</u>	<u>2,816,077</u>	<u>3,785,728</u>
<u>657,240</u>	<u>-</u>	<u>657,240</u>
29,715	-	29,715
<u>53,779</u>	<u>-</u>	<u>53,779</u>
<u>83,494</u>	<u>-</u>	<u>83,494</u>
<u>740,734</u>	<u>-</u>	<u>740,734</u>
228,917	2,816,077	3,044,994
<u>232,010</u>	<u>16,827</u>	<u>248,837</u>
<u>\$ 460,927</u>	<u>\$ 2,832,904</u>	<u>\$ 3,293,831</u>

See accompanying notes to financial statements.

OUR MILITARY KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 173,155	\$ 19,307	\$ 44,206	\$ 63,513	\$ 236,668
Printing and production	10,170	4,233	450	4,683	14,853
Occupancy (Note 4)	32,550	1,915	3,829	5,744	38,294
Accounting and audit fees	-	8,891	-	8,891	8,891
Insurance	610	1,195	265	1,460	2,070
Depreciation and amortization	6,602	388	777	1,165	7,767
Telecommunications	33,240	441	182	623	33,863
Travel and transportation	3,283	230	1,596	1,826	5,109
Postage and delivery	8,087	1,192	135	1,327	9,414
Supplies	8,836	3,123	791	3,914	12,750
Events and meetings	60,864	497	326	823	61,687
Bank fees	-	25	-	25	25
Equipment rental and maintenance	-	-	-	-	-
Grants	1,511,448	-	-	-	1,511,448
Licenses and permits	-	350	-	350	350
Other	<u>1,363</u>	<u>3,387</u>	<u>-</u>	<u>3,387</u>	<u>4,750</u>
TOTAL	<u>\$1,850,208</u>	<u>\$ 45,174</u>	<u>\$ 52,557</u>	<u>\$ 97,731</u>	<u>\$1,947,939</u>

OUR MILITARY KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Supporting Services</u>			<u>Total Supporting Services</u>	<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		
Salaries	\$ 84,148	\$ 11,949	\$ 23,898	\$ 35,847	\$ 119,995
Printing and production	17,375	3,564	22,792	26,356	43,731
Occupancy (Note 4)	12,959	2,157	4,313	6,470	19,429
Accounting and audit fees	-	6,866	-	6,866	6,866
Insurance	-	1,195	-	1,195	1,195
Depreciation and amortization	1,762	293	587	880	2,642
Telecommunications	4,694	293	583	876	5,570
Travel and transportation	715	145	304	449	1,164
Postage and delivery	2,258	509	523	1,032	3,290
Supplies	2,029	990	555	1,545	3,574
Events and meetings	9,890	432	164	596	10,486
Bank fees	-	271	2	273	273
Equipment rental and maintenance	-	321	-	321	321
Grants	518,469	-	-	-	518,469
Licenses and permits	-	275	-	275	275
Other	<u>2,941</u>	<u>455</u>	<u>58</u>	<u>513</u>	<u>3,454</u>
TOTAL	<u>\$ 657,240</u>	<u>\$ 29,715</u>	<u>\$ 53,779</u>	<u>\$ 83,494</u>	<u>\$ 740,734</u>

See accompanying notes to financial statements.

OUR MILITARY KIDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 65,419	\$ 3,044,994
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,767	2,642
Donated computers and software	(6,176)	(10,384)
(Increase) decrease in:		
Grants receivable	1,869,371	(2,801,772)
Contracts receivable	(154,386)	(27,201)
Other receivables	(532)	(12)
Security deposit	(1,947)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>(805)</u>	<u>(6,157)</u>
Net cash provided by operating activities	<u>1,778,711</u>	<u>202,110</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of computers and related equipment	<u>(11,584)</u>	<u>-</u>
Net cash used by investing activities	<u>(11,584)</u>	<u>-</u>
Net increase in cash and cash equivalents	1,767,127	202,110
Cash and cash equivalents at beginning of year	<u>452,577</u>	<u>250,467</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,219,704</u>	<u>\$ 452,577</u>

See accompanying notes to financial statements.

OUR MILITARY KIDS, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Our Military Kids, Inc. (OMK) is a nonprofit organization, incorporated in the Commonwealth of Virginia and located in McLean. OMK is a not-for-profit corporation whose purpose is to provide financial assistance to school age children of the nation's Active Military Reserve and National Guard. The assistance will be awarded to qualified recipients to help with expenses associated with sports, dance, music, art and tutoring programs during military deployment of a parent or guardian.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

Cash and cash equivalents -

OMK considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, OMK maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Property and equipment -

Property and equipment purchases in excess of \$500 are stated at cost. Property and equipment purchases are depreciated on a straight-line basis over the estimated useful lives of three years. Donated equipment is recorded at fair value at the date of donation.

Income taxes -

OMK is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. OMK is not a private foundation.

Net assets classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of OMK and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of OMK and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

OUR MILITARY KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contracts -

Contracts are accounted for as exchange transactions, and accordingly revenue is recognized when the qualifying expenditures are incurred. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances. Any funds received in advance of incurring expenditures are recorded as contracts receivable.

Contracts receivable -

Contracts receivable reflects amounts due under a subcontract agreement with Alutiiq, Inc. The purpose of the contract is to deliver Strategic Retention Program Initiative Support Services in support of Alutiiq, Inc.'s contract with the Army National Guard Bureau. The initial contract, effective September 27, 2007 expired on December 31, 2008. A follow-on engagement has been negotiated with a period of performance from January 1, 2009 through December 31, 2009. As of December 31, 2008 and 2007, total amounts due from Alutiiq, Inc. aggregated \$181,587 and \$27,201, respectively.

Use of estimates -

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

Functional allocation of expenses -

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

Uncertain tax positions -

In June 2006, the FASB released FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. As deferred by the guidance in FSP FIN 48-3, OMK is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, OMK has not implemented those provisions in the 2008 financial statements.

OUR MILITARY KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurements -

OMK adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, entitled *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. OMK accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2008 and 2007:

	2008	2007
Program Grants: DC Area Kids	\$ 13,845	\$ 16,299
Program Grants: Utah Area Gifts	-	4,884
Children of the Severely Injured (Nationwide)	57,175	-
Restricted capital assets (total value of \$16,560)	11,806	9,949
Restricted for time	<u>1,932,401</u>	<u>2,801,772</u>
	<u>\$2,015,227</u>	<u>\$2,832,904</u>

3. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2008	2007
Program Grants: DC Area Kids	\$ 27,454	\$ 25,528
Program Grants: Utah Area Gifts	4,884	10,116
Program Grants: Minnesota Area Gifts	-	25,000
Informational Materials	-	46,500
Children of the Severely Injured (Nationwide)	12,825	-
Purchase of program brochures and publications	33,800	-
Depreciation on donated capital assets	4,319	435
Passage of time	<u>1,000,000</u>	<u>-</u>
	<u>\$1,083,282</u>	<u>\$ 107,579</u>

4. LEASE COMMITMENT

On January 18, 2008, OMK entered into a three-year operating lease agreement for its office space in McLean, Virginia. The lease commenced on March 1, 2008 and expires on February 28, 2011.

OUR MILITARY KIDS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

4. LEASE COMMITMENT (Continued)

Future minimum rental payments due at December 31, 2008 are as follows:

<u>Year Ended December 31,</u>		
2009	\$	42,000
2010		42,000
2011		<u>7,000</u>
	\$	<u>91,000</u>

During the years ended December 31, 2008 and 2007, occupancy expense totaled \$38,294 and \$19,429, respectively.

5. IN-KIND CONTRIBUTIONS

In-kind contributions are recognized as support and expense in the Statements of Activities and Changes in Net Assets in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the contributed items (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by OMK. During the year ended December 31, 2008, OMK received in-kind contributions in the form of professional services having a fair market value of \$60,333; in addition, Our Military Kids, Inc. received donated computers and related equipment with a fair market value of \$6,176 (Note 2). During the year ended December 31, 2007, OMK received in-kind contributions in the form of professional services having a fair market value of \$13,389; in addition, OMK received donated computers and related equipment with a fair market value of \$10,384 (Note 2).

6. GRANTS RECEIVABLE

Grants receivable reflect a commitment made to OMK by one major donor. Payments that are expected to be received in future years have been discounted to their present value using the effective interest rate on the date of award (7.25%).

The following is a summary of grants receivable, by years, as of December 31, 2008 and 2007:

<u>Year Ended December 31,</u>	<u>2008</u>	<u>2007</u>
2008	\$ -	\$ 1,000,000
2009	-	1,000,000
2010	<u>1,000,000</u>	<u>1,000,000</u>
	1,000,000	3,000,000
Less: Current portion of grants receivable	-	(1,000,000)
Less: Discount on non-current grants receivable (7.25%)	<u>(67,599)</u>	<u>(198,228)</u>
TOTAL NONCURRENT GRANTS RECEIVABLE	<u>\$ 932,401</u>	<u>\$ 1,801,772</u>