

THE EMPTY STOCKING FUND, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

MARCH 31, 2017 AND 2016

**Prepared by
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Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Empty Stocking Fund, Inc.
Atlanta, Georgia

We have audited the accompanying financial statements of The Empty Stocking Fund, Inc. (a Georgia nonprofit organization), which comprise the statements of financial position as of March 31, 2017 and 2016, and the related statements of activities and cash flows 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
The Empty Stocking Fund, Inc.
Atlanta, Georgia
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As discussed in Note F, Prior Period Adjustments, management determined that retirement matching contributions for prior periods were not properly recorded. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Empty Stocking Fund, Inc. as of March 31, 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.

Atlanta, Georgia
January 15, 2018

THE EMPTY STOCKING FUND, INC.

Statements of Financial Position

March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 449,902	\$ 641,637
Investments	1,003,124	920,705
Inventory	<u>223,688</u>	<u>99,678</u>
Total Current Assets	<u>1,676,714</u>	<u>1,662,020</u>
FIXED ASSETS		
Machinery and equipment	67,653	67,653
Accumulated depreciation	<u>(62,619)</u>	<u>(60,390)</u>
Total Fixed Assets	<u>5,034</u>	<u>7,263</u>
OTHER ASSETS		
Deposit	<u>2,000</u>	<u>2,000</u>
Total Other Assets	<u>2,000</u>	<u>2,000</u>
Total Assets	<u>\$ 1,683,748</u>	<u>\$ 1,671,283</u>
LIABILITIES and NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 373	\$ 6,519
Accrued retirement payable	<u>19,313</u>	<u>14,163</u>
Total Current Liabilities	<u>19,686</u>	<u>20,682</u>
NET ASSETS		
Permanently restricted net assets	-	-
Temporarily restricted net assets	-	-
Unrestricted net assets	<u>1,664,062</u>	<u>1,650,601</u>
Total Net Assets	<u>1,664,062</u>	<u>1,650,601</u>
Total Liabilities and Net Assets	<u>\$ 1,683,748</u>	<u>\$ 1,671,283</u>

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statements of Activities

For the Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>(Restated)</u> <u>2016</u>
UNRESTRICTED NET ASSETS		
Unrestricted revenues and support		
Direct mail	\$ 485,621	\$ 517,125
AJC envelope	16,710	19,541
In-kind donations and contributed services	89,164	88,540
Corporate sponsorships/foundation donations	166,500	178,475
Sponsor-A-Child	226,659	247,690
JROTC Drive	106,447	99,001
Investment return	97,408	5,776
Gifts – securities	1,184	519
Special projects	14,485	1,826
Miscellaneous	<u>22,988</u>	<u>7,709</u>
Total Unrestricted Revenues and Support	<u>1,227,166</u>	<u>1,166,202</u>
Expenditures		
Program services	963,033	955,157
Supporting services		
Fund raising	217,697	226,366
Management and general	<u>32,975</u>	<u>35,701</u>
Total Expenditures	<u>1,213,705</u>	<u>1,217,224</u>
Increase (Decrease) in Unrestricted Net Assets	13,461	(51,022)
Beginning Unrestricted Net Assets	<u>1,650,601</u>	<u>1,701,623</u>
Ending Unrestricted Net Assets	<u>\$ 1,664,062</u>	<u>\$ 1,650,601</u>

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statement of Functional Expenses

For the Year Ended March 31, 2017

		<u>Supporting Services</u>	
	Program Services	Fund Raising	Management and General
Cost of toys	\$ 630,440	\$ -	\$ -
Salaries and wages	125,371	27,371	8,444
Payroll tax	9,606	2,097	647
Employee benefits	26,094	5,510	1,763
JROTC Drive expenses	-	26,662	-
Direct mail expenses	-	72,960	-
Marketing expenses	-	-	-
AJC advertisement expenses	-	19,747	-
Special projects and foundations	-	28,800	-
Recipient mailing	15,530	-	-
Legal and accounting services	-	-	1,500
Bank and payroll fees	1,236	19,614	11,253
Santa's Village labor	22,880	-	-
Depreciation	-	-	2,229
Dues and subscriptions	110	600	30
Telephone	5,011	1,092	321
Board development	-	-	638
Contract labor	7,800	7,813	-
Office expenses	3,668	799	235
Santa's Village expenses	79,963	-	-
Miscellaneous	18,383	1,373	3,093
Rent expense	16,941	2,823	2,822
Sponsor-A-Child expenses	-	436	-
Website fees	-	-	-
	<u>\$ 963,033</u>	<u>\$ 217,697</u>	<u>\$ 32,975</u>

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statement of Functional Expenses

For the Year Ended March 31, 2016

(Restated)

		Supporting Services	
	(Restated) Program Services	(Restated) Fund Raising	(Restated) Management and General
Cost of toys	\$ 660,226	\$ -	\$ -
Salaries and wages	107,448	30,239	9,507
Payroll tax	8,222	2,314	727
Employee benefits (restated)	28,944	7,460	2,467
JROTC Drive expenses	-	18,509	-
Direct mail expenses	-	63,195	-
Marketing expenses	-	429	-
AJC advertisement expenses	-	20,687	-
Special projects and foundations	-	37,854	-
Recipient mailing	22,976	-	-
Legal and accounting services	-	-	875
Bank and payroll fees	948	15,691	13,795
Contractor expenses	15,657	12,839	-
Depreciation	-	-	1,506
Dues and subscriptions	-	2,160	50
Telephone	3,518	990	311
Board development	-	-	2,710
Administrative contractor	6,000	6,000	-
Office expenses	1,663	468	148
Santa's Village expenses	78,044	-	-
Miscellaneous	4,570	1,770	782
Rent expense	16,941	2,823	2,823
Sponsor-A-Child expenses	-	2,578	-
Website fees	-	360	-
	<u>\$ 955,157</u>	<u>\$ 226,366</u>	<u>\$ 35,701</u>

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Statements of Cash Flows

For the Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>(Restated)</u> <u>2016</u>
Cash flows (to) from operating activities:		
Increase (decrease) in net unrestricted assets	\$ 13,461	\$ (51,022)
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:		
(Gain) loss on disposition of investments	(44,415)	37,281
Donated investments	(1,184)	(519)
Depreciation	2,229	1,506
Unrealized (gain) loss on investments	(18,091)	(2,209)
Changes in assets and liabilities:		
(Increase) decrease in inventory	(124,010)	98,084
Increase (decrease) in accounts payable	<u>(996)</u>	<u>10,844</u>
Net Cash Flows Provided By (Used In) Operating Activities	<u>(173,006)</u>	<u>93,965</u>
Cash flows from (used in) investing activities:		
Machinery and equipment purchases	-	(6,200)
Proceeds – sale of investments	184,784	403,281
Purchases and reinvestments of investments	<u>(203,513)</u>	<u>(184,426)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(18,729)</u>	<u>212,655</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(191,735)	306,620
Cash and Cash Equivalents at Beginning of Year	<u>641,637</u>	<u>335,017</u>
Cash and Cash Equivalents at End of Year	<u>\$ 449,902</u>	<u>\$ 641,637</u>

See Independent Auditors' Report.

The accompanying notes are an integral part of these statements.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Empty Stocking Fund, Inc. (the “Fund”) is a Georgia (not-for-profit) corporation whose purpose is to purchase and distribute toys to needy children. The Fund receives charitable contributions from individuals, corporations, and public and private foundations. The majority of activities of the Fund are conducted or supported by numerous volunteers. These volunteers include individuals, civic organizations and corporate volunteer groups. A volunteer Board of Directors also governs the Fund.

2. Tax Status

The Empty Stocking Fund, Inc. is an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. The Fund’s income tax returns for 2014, 2015, and 2016 are subject to possible federal and state examination.

3. Basis of Accounting

The Fund prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

4. Machinery and Equipment

Machinery and equipment are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each asset. Maintenance and repairs are charged to operations when incurred. Depreciation expenses incurred for the years ended March 31, 2017 and 2016 were \$2,229 and \$1,506, respectively.

5. Investments

The Fund reports investments at market value as of the statements of financial position date. Investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets absent any donor restrictions.

6. Contributed Goods and Services

Individuals have donated volunteer hours to support the Fund’s program services. No amounts have been recorded as donated services as only donations of services that create or enhance nonfinancial assets or require specialized skills that would otherwise typically be purchased are recorded as support and expense. During the years ended March 31, 2017 and 2016, the Fund recorded contributed goods and services in the amount of \$89,164 and \$88,540, respectively, for donated materials, advertising and other services. The Fund received donations of investments at fair market value during the years ended March 31, 2017 and 2016 of \$1,184 and \$519, respectively.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Concentration of Risk

The Fund has several cash accounts located in two financial institutions. Federal insurance coverage is limited to \$250,000 per customer, per bank. At March 31, 2017 and 2016, the Fund's uninsured balance was \$29,611 and \$84,017, respectively. Management believes that the credit risk related to these balances is minimal.

8. Financial Statement Presentation

The financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), *Financial Statements of Not-for-Profit Organizations*, which requires that the Fund reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

9. Functional Expenses

Costs are charged to Program Services, Management and General, and Fund Raising functions based on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated based on percentage usage and square footage.

10. Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

11. Inventory

Inventories consist of toys and other gift items. Purchased inventory items are stated at lower of cost or market. Donated toys are stated at fair market value. There were no donated toys for the years ended March 31, 2017 and 2016.

12. Revenue Recognition

In accordance with FASB ASC 958-605, *Revenue Recognition*, contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Donations of property and equipment are recorded as revenue and capitalized at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor restricts the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted revenue.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Uncertain Tax Positions

The Fund follows FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of March 31, 2017, the Fund had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Fund's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were recorded during the years ended March 31, 2017 and 2016.

NOTE B – CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flows, the Fund considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

	<i>2017</i>	<i>2016</i>
Cash	\$ 279,611	\$ 211,613
Money market accounts	<u>170,291</u>	<u>430,024</u>
Total	<u>\$ 449,902</u>	<u>\$ 641,637</u>

NOTE C – INVESTMENTS

The fair value of short-term investments totaled \$1,003,124 and \$920,705 at March 31, 2017 and 2016, respectively.

Details of the fair market value as of March 31, 2017 and March 31, 2016 are as follows:

	<i>March 31, 2017</i> <i>Fair Market Value</i>	<i>March 31, 2016</i> <i>Fair Market Value</i>
Stocks, options, and ETF's	\$ 639,093	\$ 598,686
Mutual funds	<u>364,031</u>	<u>322,019</u>
Total	<u>\$ 1,003,124</u>	<u>\$ 920,705</u>

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE C – INVESTMENTS (continued)

The following schedule summarizes investment returns for the years ended:

	<i>March 31, 2017</i>	<i>March 31, 2016</i>
Dividends - reinvested	\$ 34,817	\$ 40,759
Dividends and interest	84	89
Net realized and unrealized capital gains	<u>62,507</u>	<u>(35,072)</u>
Total investment return	<u>\$ 97,408</u>	<u>\$ 5,776</u>

NOTE D – FAIR VALUE MEASUREMENTS

The Fund adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification for financial instruments measured at fair value on a recurring basis. The standards define the fair value, establish a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expand disclosures about fair value measurements.

Fair value is defined as 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. The framework establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE D – FAIR VALUE MEASUREMENTS (continued)

We measured certain financial instruments at fair value on a recurring basis. Financial assets measured at fair value on a recurring basis are as follows as of March 31,

	<u>2017</u>	<u>2016</u>
Investments - Level 1	\$ 1,003,124	\$ 920,705
Investments - Level 2	-	-
Investments - Level 3	-	-
Total	<u>\$ 1,003,124</u>	<u>\$ 920,705</u>

NOTE E – RETIREMENT PLAN

The Fund provides a 401(k) retirement plan. Under this plan, the Fund can match up to 6% of the employee's salary deferrals. The 401(k) match for the years ended March 31, 2017 and 2016 was \$5,150 for each year. The Fund can make a onetime discretionary contribution based on an employee's percentage of all eligible employees' total compensation. Discretionary contributions made by the Fund for the years ended March 31, 2017 and 2016 were \$15,818 and \$15,075, respectively.

NOTE F – PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2017, it was determined by management that they had not properly made the 401(k) match for the period July 1, 2013 through March 31, 2016. As a result of this error, the adjustments made are as follows:

<i>For the Period Ended March 31, 2016, the Following Items are Restated</i>	<i>3/31/2016</i>
	<i>(Change in Balance)</i>
Employee Benefits (Statement of Functional Expenses)	\$ 5,150
Accrued Retirement Payable (Statement of Financial Position)	\$ 14,163
Unrestricted Net Assets (Statement of Financial Position)	\$ (9,013)
 <i>Beginning Unrestricted Net Assets are Restated as Follows (Statement of Activities)</i>	
Beginning Unrestricted Net Assets 4/1/2014	\$ 1,710,636
Prior Period Adjustment	<u>\$ (9,013)</u>
Corrected Unrestricted Net Assets 3/31/2015	<u>\$ 1,701,623</u>

THE EMPTY STOCKING FUND, INC.

Notes to Financial Statements

NOTE G – RELATED PARTY TRANSACTION

The Empty Stocking Fund, Inc. has a business relationship with Brown Bag Marketing, a company that is owned by a member of the Board of Directors. Brown Bag Marketing provides the Fund with marketing, social media and website design services as well as Information Technology support. During the years ended March 31, 2017 and 2016, there were payments to the vendor of \$32,200 and \$37,800, respectively. All services provided to the Fund are provided at or below fair market value. The representative board member annually signs a conflict of interest statement disclosing this relationship and recuses himself from voting on anything related to the vendor relationship, including the annual budget.

NOTE H – SUBSEQUENT EVENTS

The Empty Stocking Fund, Inc. entered a lease agreement dated July 7, 2017, with an unrelated nonprofit organization. The leased property will be used to store toys and other gift items. The term of the lease is from July 15, 2017 through January 14, 2018. A total rental fee of \$3,330 will be payable in six equal installments of \$550 per month.

NOTE I – EVALUATION OF SUBSEQUENT EVENTS

The Empty Stocking Fund, Inc. has evaluated subsequent events through January 15, 2018 the date which the financial statements were issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements as presented.