DEFENDING THE BLUE LINE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

LA FAYETTE, MELSSEN & PLATH, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Defending the Blue Line

We have audited the accompanying financial statements of Defending the Blue Line (a nonprofit organization) which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, 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.

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 qualified audit opinion.

Basis for Qualified Opinion

We did not observe the taking of the physical inventories at December 31, 2014 (stated at $471,562), since that date was prior to the time we were initially engaged as auditors for Defending the Blue Line. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Defending the Blue Line 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 Summarized Comparative Information

We have previously audited the Organization's 2014 financial statements, and we expressed a qualified opinion on those financial statements in our report dated November 10, 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.

Lafayette, Melssen & Plath, Ltd.
Certified Public Accountants
March 22, 2016

DEFENDING THE BLUE LINE

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	2015	2014
ASSETS		
Current Assets		
Cash	$ 17,245	$ 15,025
Prepaid expenses	2,326	2,309
Investments	1,017	-
Contributions receivable, net	136,152	77,799
Inventory	405,398	471,562
Total Current Assets	562,138	566,695
Other Assets		
Contribution receivable	-	15,000
Artwork	4,000	4,000
Total Other Assets	4,000	19,000
Fixed Assets		
Leasehold improvements	25,740	17,683
Property and equipment	24,000	23,000
Less accumulated depreciation	(14,021)	(7,675)
Net Fixed Assets	35,719	33,008
Total Non-Current Assets	39,719	52,008
TOTAL ASSETS	$ 601,857	$ 618,703
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 582	$ 112
Line of credit	20,000	9,550
Total Current Liabilities	20,582	9,662
NET ASSETS		
Unrestricted	510,475	571,541
Temporarily restricted	70,800	37,500
Total Net Assets	581,275	609,041
TOTAL LIABILITIIES AND NET ASSETS	$ 601,857	$ 618,703

See Accompanying Notes to Financial Statements.

DEFENDING THE BLUE LINE

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	2015			
	Unrestricted	Temporarily Restricted	Total	2014
SUPPORT AND REVENUE				
Support				
Contributions	$ 740,715	$ 70,000	$ 810,715	$ 475,506
In kind	930,167	-	930,167	1,165,054
Total Support	1,670,882	70,000	1,740,882	1,640,560
Revenue				
Merchandise, net	2,193	-	2,193	1,014
Ticket sales on golf and gala event	53,450	-	53,450	14,400
Dividend income	-	-	-	82
Realized gain on investments sold	-	-	-	679
Other income	-	-	-	1,147
Net assets released from restriction	36,700	(36,700)	-	-
Total Revenue	92,343	(36,700)	55,643	17,322
TOTAL SUPPORT AND REVENUE	1,763,225	33,300	1,796,525	1,657,882
EXPENSES				
Program	1,520,615	-	1,520,615	1,220,368
Costs of direct benefits to donors	101,055	-	101,055	24,454
Management and general	83,970	-	83,970	38,565
Fundraising	118,651	-	118,651	61,735
TOTAL EXPENSES	1,824,291	-	1,824,291	1,345,122
(Decrease) increase in net assets	(61,066)	33,300	(27,766)	312,760
Net assets, beginning of year	571,541	37,500	609,041	296,281
Net assets, end of year	$ 510,475	$ 70,800	$ 581,275	609,041

See Accompanying Notes to Financial Statements.

DEFENDING THE BLUE LINE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

(with summarized financial information for the year ended December 31, 2014)

	2015					
	Program	Costs of Direct Benefits to Donors	Management & General	Fundraising	Total	2014
Salary	$ 96,048	$ -	$ 34,702	$ 24,100	$ 154,850	$ 84,750
Payroll taxes	6,871	-	3,791	1,185	11,847	6,483
Charitable giving	1,329,635	-	-	-	1,329,635	1,107,806
Conferences and meetings	2,440	-	135	136	2,711	3,339
Depreciation	5,077	-	634	635	6,346	5,229
Fundraising events	-	101,055	-	62,308	163,363	56,213
Insurance	5,054	-	1,264	-	6,318	5,566
Interest expense	-	-	572	-	572	630
Occupancy	16,800	-	2,100	2,100	21,000	19,250
Office and administration	17,575	-	11,520	19,477	48,572	29,289
Postage and shipping	-	-	552	-	552	2,579
Professional fees	6,148	-	26,442	1,060	33,650	4,679
Promotional	16,125	-	-	-	16,125	-
Repair and maintenance	6,150	-	1,538	-	7,688	2,075
Travel	6,931	-	-	6,930	13,861	11,180
Utilities	5,761	-	720	720	7,201	6,054
Total	$ 1,520,615	$ 101,055	$ 83,970	$ 118,651	$ 1,824,291	$ 1,345,122
Percentage	83%	6%	5%	6%	100%	

See Accompanying Notes to Financial Statements.

DEFENDING THE BLUE LINE

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

(with summarized financial information for the year ended December 31, 2014)

		2015		2014
Cash flows from operating activities:				
Change in net assets	$	(27,766)	$	312,760
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation		6,346		5,229
Contributions of common stock		(1,017)		-
Gifts in-kind of fixed assets		(1,000)		(15,000)
Gifts in-kind of artwork		-		(4,000)
Inventory - sales		10,969		-
Inventory - in-kind charitable giving		1,163,740		943,921
Inventory - in-kind donations		(929,167)		(1,143,788)
Inventory -cash purchased		(179,378)		(35,467)
Realized gain on investments sold		-		(679)
Prepaid expenses		(17)		(85)
Contributions receivable		(43,353)		(76,362)
Accounts payable		470		(7,175)
Net cash (used in) operating activities		(173)		(20,646)
Cash flows from investing activities:				
Purchase of fixed assets		(8,057)		(2,683)
Proceeds on sale of investments		-		15,826
Net cash (used in) provided by investing activities		(8,057)		13,143
Cash flows from financing activities:				
Line of credit borrowings		105,000		6,750
Line of credit payments		(94,550)		(5,400)
Net cash provided by financing activities		10,450		1,350
Net increase (decrease) in cash		2,220		(6,153)
Cash, beginning of year		15,025		21,178
Cash, end of year	$	17,245	$	15,025
Supplemental Disclosure				
Gifts in-kind of capitalized fixed assets	$	1,000	$	19,000
Interest paid	$	572	$	630

See Accompanying Notes to Financial Statements.

DEFENDING THE BLUE LINE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

1. The Organization

Defending the Blue Line (the "Organization") is a non-profit organization founded in 2009. The Organization was established by a group of active duty soldiers with the spirit of keeping hockey alive for the children of our nation's military heroes. The Organization's mission is ensuring that children of military members, as well as the adult service members themselves, are afforded every opportunity to participate in the game of hockey. The Organization accomplishes this by providing free equipment for military children, hockey camps, special events, and financial assistance for registration fees and other costs associated with hockey. In addition, the Organization has expanded its mission to support military families through baseball and other sports.

2. Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2015.

Cash - Cash includes cash on hand and checking accounts.

Prepaid Expenses - Prepaid expenses include rent and insurance expense.

Contributions Receivable - Contributions receivable represent unconditional commitments from foundations, corporations, and individuals. The Organization periodically reviews individual accounts, and as of December 31, 2015, management has estimated $7,500 as an allowance for uncollectible accounts.

2. Significant Accounting Policies (Continued)

Investments - The Organization held investments during the year ended December 31, 2015, consisting of public equity securities, which were carried at fair value based on quoted prices in active markets (Level 1 measurements).

Inventory - Inventory consists of hockey equipment, baseball equipment, and National Hockey League tickets, which has primarily been received by the Organization as gifts in-kind. Inventory is valued at the lower of cost or fair value (cost is determined as fair value at the date of gift plus any costs incurred.) The Organization grants this equipment to children of military families and National Hockey League tickets to military families.

Fixed Assets - Fixed Assets are recorded at cost or, if donated, at fair market value at the date of donation. Items of $2,500 or less are expensed in the year purchased. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the assets, which range from five to ten years for leasehold improvements and property and equipment. Costs of maintenance, repairs and minor replacements are expensed as incurred. Depreciation expense for the year ended December 31, 2015 was $6,346.

Revenues and Expenses - Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Donations are measured at their fair value and reported as increases in net assets.

Contributions - Contributions, which may include unconditional promises to give ("pledges"), are recognized as revenues in the period received. Contributions are measured at their fair value and reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Organization does not have the right to expend the original principal, the assets are reported as permanently restricted. When a donor restriction is met, temporarily restricted net assets are released to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

2. Significant Accounting Policies (Continued)

In-Kind - The Organization receives gifts in-kind, including hockey equipment, baseball equipment, hockey camps, and National Hockey League tickets for use in its programs. In-kind revenue is recognized when the Organization has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with accounting principles generally accepted in the United States of America. Gifts in-kind received through donations are valued and recorded as revenue at their fair value at the time the contribution is received. When the Organization distributes gifts in-kind as part of its own programs, it reports an expense, which is reported in charitable giving program expenses in the statement of functional expenses. Undistributed gifts in-kind at year-end are reported as Inventory.

Donated services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles which include a) requiring specialized skills; b) provided by someone with those skills; and c) would have to be purchased if they were not donated. The Organization had no contributed services meeting the recognition criteria for the year ended December 31, 2015. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization to fulfill its purpose. The Organization received the support of approximately 65 volunteers for the year ended December 31, 2015. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

Income Taxes - The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2015. Tax returns for the past three years remain open for examination by tax jurisdictions.

Advertising - The Organization expenses advertising as incurred.

Functional Allocation of Expenses - The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis, based on estimates developed by management.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. Such estimates include inventory valuation, fair value of gifts in-kind, and functional expense allocation.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets.

Subsequent Events - Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued.

The Organization has performed an evaluation of subsequent events through March 22, 2016, which is the date the financial statements were available to be issued.

3. Contributions Receivable

Contributions receivable at December 31, 2015 are summarized as follows:

Expected receipt of contributions in:

2016	$	143,652
Less allowance for doubtful accounts		(7,500)
Contributions receivable	$	136,152

4. Line of Credit

The Organization entered into a line of credit agreement with a bank on April 23, 2015, under which it can borrow up to $50,000 for operating purposes, at an interest rate of 1.50% over Prime Rate. The line of credit matures on April 20, 2016. The line of credit is secured by the Organization's inventory and property and equipment.

5. Retirement Plan

The Organization offers a 401(k) plan which is made available to eligible employees. For the year ended December 31, 2015, the Organization made no matching contributions on behalf of employees.

6. In-Kind

The Organization recognized contribution revenue for in-kind donations received at their estimated fair values for the following for the year ended December 31, 2015:

Sports equipment	$	425,717
Hockey camps		191,000
National Hockey League tickets		312,450
Fixed assets		1,000
Total	$	930,167

7. Commitments and Related Parties

The Organization leases facilities in Hastings, Minnesota. Commencing November 1, 2014, the Organization entered into a lease agreement with a Limited Liability Company, which is owned by the president of the Organization. The lease expires on October 31, 2016, with the option to renew. Monthly payments under this lease agreement are $1,750. Lease expense for the year ended December 31, 2015 was $21,000.

As of December 31, 2015, the future minimum lease payments under operating leases are as follows:

Year Ending December 31,		
2016	$	17,500

The Organization employed a relative of the President of the Organization during 2015. For the year ended December 31, 2015, the Organization paid this employee $27,650 for services provided.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following at December 31, 2015:

Time restricted for general support	$	25,000
Purpose restricted for:		
Officer salary		40,000
Military promotion		5,800
Total	$	70,800