

**BEHIND THE BADGE FOUNDATION**

**Financial Statements for the Year Ended  
December 31, 2011  
and Independent Auditors' Report**

**BEHIND THE BADGE FOUNDATION**  
**Table of Contents**  
**For the Year Ended December 31, 2011**

Independent Auditors' Report .....	1
Financial Statements:	
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6

**WATSON & McDONELL, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Behind the Badge Foundation  
Issaquah, Washington

We have audited the accompanying statement of financial position of Behind the Badge Foundation (a nonprofit corporation) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Behind the Badge Foundation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Watson & McDowell, PLLC*

November 27, 2012

BEHIND THE BADGE FOUNDATION  
Statement of Financial Position  
December 31, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,086,508
Investments	243,594
Prepaid expenses	3,055
Inventory	<u>1,380</u>
	<u>1,334,537</u>

Other assets:

Memorial maintenance reserve	700,000
Cemetery plots	<u>27,538</u>
	<u>727,538</u>

Property, equipment and intangibles:

Website development	20,531
Furniture and equipment	16,809
Less: accumulated depreciation	<u>(3,559)</u>
	<u>33,781</u>
	<u><u>\$ 2,095,856</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Pledges payable	\$ 5,000
-----------------	----------

Net assets:

Unrestricted	<u>2,090,856</u>
	<u><u>\$ 2,095,856</u></u>

The accompanying notes should be read with these financial statements.

BEHIND THE BADGE FOUNDATION  
Statement of Activities  
For the Year Ended December 31, 2011

Support and revenue:	
Contributions	\$ 120,525
Investment income	36,149
Event income, net of direct expenses of \$53,077	57,763
Merchandise sales	966
License plate income	267,813
In-kind contributions	5,454
Other revenue	2,960
Gain (loss) on investments	<u>(32,858)</u>
Total support and revenue	<u>458,772</u>
Expenses:	
Program services	212,169
Administration	74,249
Fundraising	<u>42,198</u>
Total expenses	<u>328,616</u>
Change in net assets	130,156
Unrestricted net assets, beginning of year	<u>1,960,700</u>
Unrestricted net assets, end of year	<u><u>\$ 2,090,856</u></u>

The accompanying notes should be read with these financial statements.

**BEHIND THE BADGE FOUNDATION**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2011**

	Program Services		Support Services		Total
	Services	Administration	Fundraising	Fundraising	
Salaries and wages	\$ 66,000	\$ 42,000	\$ 12,000		\$ 120,000
Payroll taxes	5,764	3,668	1,048		10,480
Total salaries and related expenses	71,764	45,668	13,048		130,480
Assistance to officer families and organizations	73,863				73,863
Conferences and meetings	25,216	1,273	432		26,921
Memorial maintenance	11,687				11,687
Memorial ceremony	4,398				4,398
Information technology	872	873	309		2,054
Event expense			16,371		16,371
Office expenses	8,276	8,355	1,488		18,119
Advertising and promotion	10,388		7,730		18,118
Occupancy	970	970			1,940
Insurance		3,009			3,009
Travel	4,118	1,526	1,091		6,735
Professional fees	617	9,288	667		10,572
Bank service charges		869	1,062		1,931
Depreciation		1,405			1,405
Other expenses		1,013			1,013
	<u>\$ 212,169</u>	<u>\$ 74,249</u>	<u>\$ 42,198</u>		<u>\$ 328,616</u>

The accompanying notes should be read with these financial statements.

BEHIND THE BADGE FOUNDATION  
Statement of Cash Flows  
For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 130,156
Adjustments to reconcile change in net assets to cash provided (used) by operations:	
Depreciation	1,405
Unrealized loss on investments	32,858
Changes in operating assets and liabilities:	
Decrease (increase) in prepaid expenses	(2,955)
Decrease (increase) in inventory	(61)
(Decrease) increase in pledges payable	<u>5,000</u>
Cash provided (used) by operating activities	<u>166,403</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Reinvestment of investment income	(31,613)
Website development	(20,531)
Purchases of furniture and equipment	<u>(10,917)</u>
Cash provided (used) by investing activities	<u>(63,061)</u>

Net increase (decrease) in cash and cash equivalents	103,342
--	---------

Cash and cash equivalents, beginning of year	<u>983,166</u>
--	----------------

Cash and cash equivalents, end of year	<u><u>\$ 1,086,508</u></u>
--	----------------------------

The accompanying notes should be read with these financial statements.

Behind the Badge Foundation  
Notes to Financial Statements  
For the Year Ended December 31, 2011

NOTE 1 – NATURE OF THE FOUNDATION

Behind the Badge Foundation (the Foundation) is a nonprofit organization that exists to provide support and assistance to the survivors and families of law enforcement officers in Washington killed in the line of duty and to provide upkeep for the law enforcement memorial situated on the capitol campus in Olympia, Washington. The Foundation raised the funds and constructed the law enforcement memorial, which was donated to the State of Washington in May, 2006.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time. There are currently no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. There are currently no permanently restricted net assets.

Revenues 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and cash equivalents

Interest-bearing instruments, with maturities of three months or less, are considered to be cash equivalents.



Behind the Badge Foundation  
Notes to Financial Statements  
For the Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fixed assets

Fixed assets are stated at cost or, if donated, at fair market value at the date of donation. The Foundation capitalizes all expenditures for fixed assets in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives ranging from five to seven years.

During 2011, the Foundation began the development of a website. The Foundation is following Financial Accounting Standards Board (FASB) Codification Subtopic 350-50, *Website Development Costs*, and capitalizing certain components of the development. Upon completion the website costs will be amortized over 36 months.

In-kind contributions

The Foundation recognizes donations of materials and the use of facilities. Donated assets are recorded as contributions at their estimated fair market values on the date of donation. In addition, donated services are recognized if the services received (i) create or enhance non-financial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation.

The Foundation also receives support from volunteers who contributed approximately 3,375 hours supporting activities of the Foundation. These amounts are not included in the financial statements, as they do not meet the appropriate recognition criteria.

Federal income tax

Behind the Badge Foundation is a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation's income tax filings are subject to examination by various taxing authorities. The Foundation's open examination periods are 2008 and thereafter.

The Foundation follows the provisions of uncertain tax positions as addressed in FASB Codification Subtopic 740-10, *Income Taxes*. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Investments

Investments consist of publicly traded mutual funds and are recorded at fair market value. The market value is based on quoted prices in active markets for identical assets and falls within level one of the hierarchical disclosure framework established by Codification, Subtopic 820-10, *Fair Value Measurements and Disclosures*. Interest and dividends are reported as investment income in the statement of activities. Realized and unrealized gains and losses are reported as gain (loss) on investments in the statement of activities. Investments are subject to market risk.

Behind the Badge Foundation  
Notes to Financial Statements  
For the Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited.

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 and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 3 – MAINTENANCE OBLIGATIONS

Under an agreement with the State of Washington, Department of Enterprise Services, the Foundation is responsible for maintenance and repairs on the Washington State Law Enforcement Memorial. This agreement remains in effect during the entire existence of the Memorial, terminating only upon removal of the Memorial from the Capitol Campus.

NOTE 4 – MEMORIAL MAINTENANCE RESERVE

The Foundation has set aside funds to cover future maintenance and repair costs on the Washington State Law Enforcement Memorial. The reserve consists of investments in publicly traded mutual funds as described in Note 2.

NOTE 5 – CEMETERY PLOTS

Cemetery plots donated to the Foundation are intended to be gifted to families within the law enforcement community. The plots have been recorded at their estimated fair market value.

Behind the Badge Foundation  
Notes to Financial Statements  
For the Year Ended December 31, 2011

NOTE 6 – OPERATING LEASE

In December 2011, the Foundation entered into a 39-month operating lease for its office space. The Foundation is also responsible for its portion of the building's operating costs as defined in the lease. Future minimum lease payments under this lease are:

2012	\$	15,523
2013		23,978
2014		24,699
2015		<u>6,175</u>
	\$	<u>70,375</u>

NOTE 7 – CONCENTRATIONS OF RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of short-term investments and interest-bearing cash accounts. At December 31, 2011, the Foundation had savings deposits that exceeded the federally insured limit by \$355,000. Cash instruments of \$215,600 held in brokerage accounts are not FDIC insured. The Foundation has not experienced any losses in such accounts.

The Foundation receives revenue from the State of Washington Department of Licensing for sales of license plates bearing the logo of the Foundation. Approximately 58 percent of total revenue was from license plate sales during the year ended December 31, 2011.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 27, 2012, which is the date the financial statements were available to be issued, and has determined that there are no material subsequent events that require recognition or additional disclosure.