

Firehouse Subs Public Safety Foundation, Inc.

Financial Statements

Years Ended December 31, 2015 and 2014

Table of Contents

Independent Auditors' Report 1

Financial Statements:

 Statements of Financial Position 2

 Statements of Activities 3

 Statements of Functional Expenses 4

 Statements of Cash Flows 5

 Notes to Financial Statements 6

Independent Auditors' Report

Board of Directors
Firehouse Subs Public Safety Foundation, Inc.
Jacksonville, Florida

We have audited the accompanying financial statements of Firehouse Subs Public Safety Foundation, Inc. (the "Foundation"), a non-profit corporation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses 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.

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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Jacksonville, Florida
April 25, 2016**

Firehouse Subs Public Safety Foundation, Inc.
Statements of Financial Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash	\$ 3,131,009	\$ 1,858,979
Marketable securities	2,427,860	1,519,984
Contribution receivables	488,933	255,404
Other current assets	<u>18,450</u>	<u>22,762</u>
Total current assets	6,066,252	3,657,129
Property and equipment, net	<u>8,347</u>	<u>9,840</u>
Total assets	<u>\$ 6,074,599</u>	<u>\$ 3,666,969</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 217,330	\$ 304,294
Donations payable	<u>129,286</u>	<u>236,083</u>
Total current liabilities	346,616	540,377
Net assets:		
Unrestricted	5,119,479	2,741,015
Temporarily restricted	<u>608,504</u>	<u>385,577</u>
Total net assets	<u>5,727,983</u>	<u>3,126,592</u>
Total liabilities and net assets	<u>\$ 6,074,599</u>	<u>\$ 3,666,969</u>

Firehouse Subs Public Safety Foundation, Inc.
Statements of Activities
Years Ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and other revenue:						
Contributions	\$ 7,165,086	\$ 518,557	\$ 7,683,643	\$ 4,952,429	\$ 364,313	\$ 5,316,742
In-kind donations	7,400	-	7,400	8,014	-	8,014
Investment income (loss)	(67,836)	-	(67,836)	19,984	-	19,984
Other income	138,578	-	138,578	6,513	-	6,513
Special events	159,722	-	159,722	77,150	-	77,150
Less: direct expenses	(85,588)	-	(85,588)	(20,421)	-	(20,421)
Total support	7,317,362	518,557	7,835,919	5,043,669	364,313	5,407,982
Net assets released from restrictions	295,630	(295,630)	-	233,002	(233,002)	-
Total support and other revenue	7,612,992	222,927	7,835,919	5,276,671	131,311	5,407,982
Expense:						
Program services	4,725,035	-	4,725,035	3,896,362	-	3,896,362
Supporting services:						
Fundraising	357,814	-	357,814	169,783	-	169,783
General and administrative	151,679	-	151,679	112,495	-	112,495
Total support services	509,493	-	509,493	282,278	-	282,278
Total expenses	5,234,528	-	5,234,528	4,178,640	-	4,178,640
Change in net assets	2,378,464	222,927	2,601,391	1,098,031	131,311	1,229,342
Net assets, beginning of year	2,741,015	385,577	3,126,592	1,642,984	254,266	1,897,250
Net assets, end of year	\$ 5,119,479	\$ 608,504	\$ 5,727,983	\$ 2,741,015	\$ 385,577	\$ 3,126,592

See accompanying notes.

Firehouse Subs Public Safety Foundation, Inc.
Statements of Functional Expenses
Years Ended December 31, 2015 and 2014

	PROGRAM SERVICES					SUPPORTING SERVICES		Total
	Public Safety Equipment	Prevention and Education	Scholarships: Firefighters and Law Enforcement	Disaster Relief	U.S. Military	Fundraising	General and Administrative	
December 31, 2015								
Cash donations	\$ 2,011,524	\$ 247,341	\$ -	\$ 69,480	\$ 101,169	\$ -	\$ -	\$ 2,429,514
Equipment donations	1,631,132	187,863	-	32,990	109,124	-	-	1,961,109
Food and supplies	-	-	-	1,794	-	-	-	1,794
Rent	-	-	-	-	-	-	5,000	5,000
Advertising and promotions	6,561	8,107	-	-	-	96,990	58	111,716
Insurance	-	-	-	-	-	-	1,999	1,999
Licenses and permits	-	-	-	-	-	-	15,638	15,638
Salaries and benefits	195,795	39,807	-	27,518	12,601	126,692	46,318	448,731
Professional fees	-	-	-	-	1,150	-	36,877	38,027
Telephone	1,581	217	-	140	61	1,023	407	3,429
Travel	37,336	243	-	-	-	4,786	8,408	50,773
Awards and prizes	-	-	-	-	-	75,238	-	75,238
Other expenses	1,498	3	-	-	-	53,085	36,974	91,560
Total expenses	\$ 3,885,427	\$ 483,581	\$ -	\$ 131,922	\$ 224,105	\$ 357,814	\$ 151,679	\$ 5,234,528
December 31, 2014								
Cash donations	\$ 1,039,045	\$ 171,338	\$ 15,466	\$ 93,642	\$ 62,151	\$ -	\$ -	\$ 1,381,642
Equipment donations	1,897,319	126,814	-	40,400	61,119	-	-	2,125,652
Food and supplies	743	-	-	2,479	-	-	-	3,222
Rent	-	-	-	-	-	-	5,000	5,000
Advertising and promotions	3,006	9,217	-	-	6,250	58,429	565	77,467
Insurance	-	-	-	-	-	-	1,987	1,987
Licenses and permits	-	-	-	-	-	-	14,602	14,602
Salaries and benefits	276,699	26,990	-	1,532	14,000	35,507	25,859	380,587
Professional fees	-	-	-	-	-	-	29,791	29,791
Telephone	2,455	252	-	22	108	375	259	3,471
Travel	41,231	291	-	322	22	2,194	4,470	48,530
Awards and prizes	-	-	-	-	-	48,209	-	48,209
Other expenses	3,216	-	-	-	233	25,069	29,962	58,480
Total expenses	\$ 3,263,714	\$ 334,902	\$ 15,466	\$ 138,397	\$ 143,883	\$ 169,783	\$ 112,495	\$ 4,178,640

See accompanying notes.

Firehouse Subs Public Safety Foundation, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,601,391	\$ 1,229,342
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	6,066	5,134
Bad debt expense	388	250
Unrealized (gain) loss on marketable securities	67,836	(19,984)
Changes in operating assets and liabilities:		
Contribution receivables	(233,917)	12,337
Other current assets	4,312	(5,887)
Accounts payable	(86,964)	26,478
Donations payable	(106,797)	139,091
Net cash provided by operating activities	<u>2,252,315</u>	<u>1,386,761</u>
Cash flows from investing activities:		
Purchase of marketable securities	(1,000,000)	(1,500,000)
Proceeds from sale of investments	24,288	-
Purchase of property and equipment	(4,573)	(1,950)
Net cash used by investing activities	<u>(980,285)</u>	<u>(1,501,950)</u>
Net increase (decrease) in cash	1,272,030	(115,189)
Cash, beginning	<u>1,858,979</u>	<u>1,974,168</u>
Cash, ending	<u>\$ 3,131,009</u>	<u>\$ 1,858,979</u>

Notes to Financial Statements

1. Nature of Organization and Summary of Significant Accounting Policies

Firehouse Subs Public Safety Foundation, Inc. (the "Foundation"), a nonprofit corporation, was incorporated under the laws of the State of Florida on September 7, 2005 and started conducting operations in 2006. Its purpose is to support public safety organizations, disaster relief and related individuals by providing lifesaving equipment, education scholarships and other financial support, and provide support to the US Military. The majority of revenue sourcing for the Foundation's purpose is obtained through donations from restaurant patrons and vendors of the Firehouse Restaurant Group, Inc. locations ("Firehouse Subs").

The financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into three classes of net assets – unrestricted, temporarily restricted, or permanently restricted as follows:

Net assets and revenue, gains, expenses and losses are required to be classified as unrestricted, temporarily restricted and permanently restricted based upon the following criteria:

1. Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
2. Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
3. Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

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 (1) the reported amounts of assets and liabilities; (2) disclosure of contingent assets and liabilities at the date of the financial statements; and, (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Cash and cash equivalents

The Foundation considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents.

Firehouse Subs Public Safety Foundation, Inc.
Notes to Financial Statements

Property and equipment

Property and equipment are recorded at cost which was \$21,172 and \$16,600 at December 31, 2015 and 2014, respectively. Depreciation is computed by straight-line methods applied to individual items, based on estimated useful lives of three years. Accumulated depreciation was \$12,825 and \$6,760 at December 31, 2015 and 2014, respectively.

Expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2015 and 2014 were \$111,716 and \$77,467, respectively.

Expense allocation

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

Endowment

The Foundation has established and plans to grow endowment funds to provide income for stabilizing operations against fluctuations in the annual campaign revenue; to enhance annual campaign revenue from income generated by the endowed gifts; and to provide program funding flexibility not possible through annual campaign revenue including emergency funding, administrative costs, challenge grants and infrastructure needs.

Investments

Investments are recorded at fair value. The fair value of investments is based on the last sales price on the valuation date for those securities traded on national securities exchanges. For securities traded over-the-counter, the last bid price is used. Realized and unrealized gains or losses are determined by comparison of cost to either proceeds received from sales or market values.

Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded when earned. Dividends are recorded on the ex-dividend date. See Note 2.

Income taxes

The Foundation is recognized by the Internal Revenue Service as a nonprofit under Section 501(c)(3) of the Internal Revenue Code; accordingly the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

2. Marketable Securities

The Board of Directors established a quasi-endowment in 2014 in which to place certain unrestricted contributions. The total amount invested in 2015 was \$1,000,000 (\$1,500,000 in 2014) and the value of these funds is \$2,427,860 at December 31, 2015 (\$1,519,984 at December 31, 2014) with substantially all assets in mutual funds. It is the intention of the Foundation to have these funds treated as an endowment, principal to remain intact and only interest to be spent, although any portion of the endowment may be spent at the Board's discretion. Therefore, the quasi-endowment has been included in unrestricted net assets.

Firehouse Subs Public Safety Foundation, Inc.
Notes to Financial Statements

Investment income (loss) consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 70,742	\$ 26,497
Market depreciation	(127,356)	(2,893)
Other expenses	<u>(11,222)</u>	<u>(3,620)</u>
	<u>\$ (67,836)</u>	<u>\$ 19,984</u>

3. Fair Value Measurements

The Foundation follows accounting standards requiring a framework for measuring fair value. The 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 as follows:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management judgment and estimation. Such investment valuations are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The Foundation uses the market approach valuation technique to value its investments.

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

Level 1 Fair Value Measurements - The fair value of mutual funds is based on quoted net asset values of the shares held by the Foundation at year end. The fair value of money market funds is based on transacted values.

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.

There were no changes during the year ended December 31, 2015 and 2014 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

At December 31, 2015 and December 31, 2014, all marketable securities were equity fund mutual funds classified as Level 1.

The Foundation has \$3,106,721 and \$1,858,979 in cash and cash equivalents as of December 31, 2015 and 2014, which was not classified as a Level as prescribed within the fair value hierarchy.

4. Contribution Receivables

Contribution receivables consist primarily of donations generated by in-restaurant initiatives at Firehouse Subs franchise locations and vendor donations. The majority of these receivables are collected within 90 days after period-end and as such there are no credit terms. The Foundation does not charge interest on past due amounts.

An allowance for uncollectible contribution receivables is estimated based on management's judgment on the collectability of these receivables. At December 31, 2015 and 2014, the Foundation considered all remaining receivables to be fully collectible. Accordingly, there was no allowance for doubtful accounts. There was bad debt expense of \$388 in 2015 (\$250 in 2014).

5. Related Party Transactions

The Foundation received contributions from Firehouse Subs of approximately \$143,000 for the year ended December 31, 2015 (\$154,000 in 2014).

The Foundation incurred expenses of approximately \$449,000 (\$380,000 in 2014) paid to Firehouse Subs for reimbursement of the Foundation director, development manager, programs manager, procurement specialist, grants and fundraising administrator, and administrative assistant salary and benefits.

The Foundation owes approximately \$101,000 to Firehouse Subs as of December 31, 2015. Firehouse Subs owed approximately \$39,000 to the Foundation as of December 31, 2014.

Firehouse Subs provides office facilities as well as accounting assistance to the Foundation at no charge. These in-kind donations are recorded at their estimated fair value of \$7,400 as revenues and expenses in the Statements of Activities for the years ended December 31, 2015 and 2014 respectively.

In addition, the Foundation is allowed to use the Firehouse Subs trademark name in its operations.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and December 31, 2014 consist of amounts received by the Foundation designated by donors for specific disaster relief initiatives.

7. Concentrations

The Foundation receives almost all of its support, either directly or indirectly, from the operations of Firehouse Subs.

8. Reclassifications

Certain amounts in the 2014 financial statements have been reclassified for comparative purposes to conform to 2015 presentation.

9. Subsequent Events

The Foundation evaluated the effect subsequent events would have on the financial statements through April 25, 2016, which is the date the financial statements were available to be issued.