

# **Firehouse Subs Public Safety Foundation, Inc.**

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**Financial Statements**

**Years Ended December 31, 2016 and 2015**

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## **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, 2016 and 2015, 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 audits 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, 2016 and 2015, 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 19, 2017**

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,726,236	\$ 3,131,009
Marketable securities	3,779,436	2,427,860
Contribution receivables	642,061	488,933
Other current assets	<u>17,101</u>	<u>18,450</u>
Total current assets	7,164,834	6,066,252
Property and equipment, net	<u>86,113</u>	<u>8,347</u>
Total assets	<u>\$ 7,250,947</u>	<u>\$ 6,074,599</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable & accrued expenses	\$ 143,546	\$ 217,330
Grants payable	<u>935,686</u>	<u>129,286</u>
Total current liabilities	1,079,232	346,616
Net assets:		
Unrestricted	5,117,498	5,119,479
Temporarily restricted	<u>1,054,217</u>	<u>608,504</u>
Total net assets	<u>6,171,715</u>	<u>5,727,983</u>
Total liabilities and net assets	<u>\$ 7,250,947</u>	<u>\$ 6,074,599</u>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and other revenue:						
Contributions	\$ 7,259,940	\$ 1,156,858	\$ 8,416,798	\$ 7,292,442	\$ 518,557	\$ 7,810,999
In-kind donations	12,613	-	12,613	7,400	-	7,400
Investment income (loss)	346,349	-	346,349	(67,836)	-	(67,836)
Other income	20,058	-	20,058	11,222	-	11,222
Special events	173,866	-	173,866	159,722	-	159,722
Less: direct expenses	(87,445)	-	(87,445)	(85,588)	-	(85,588)
Total support	<u>7,725,381</u>	<u>1,156,858</u>	<u>8,882,239</u>	<u>7,317,362</u>	<u>518,557</u>	<u>7,835,919</u>
Net assets released from restrictions	<u>711,145</u>	<u>(711,145)</u>	<u>-</u>	<u>295,630</u>	<u>(295,630)</u>	<u>-</u>
Total support and other revenue	<u>8,436,526</u>	<u>445,713</u>	<u>8,882,239</u>	<u>7,612,992</u>	<u>222,927</u>	<u>7,835,919</u>
Expense:						
Program services	7,781,561	-	7,781,561	4,725,035	-	4,725,035
Supporting services:						
Fundraising	423,600	-	423,600	357,814	-	357,814
General and administrative	233,346	-	233,346	151,679	-	151,679
Total support services	<u>656,946</u>	<u>-</u>	<u>656,946</u>	<u>509,493</u>	<u>-</u>	<u>509,493</u>
Total expenses	<u>8,438,507</u>	<u>-</u>	<u>8,438,507</u>	<u>5,234,528</u>	<u>-</u>	<u>5,234,528</u>
Change in net assets	<u>(1,981)</u>	<u>445,713</u>	<u>443,732</u>	<u>2,378,464</u>	<u>222,927</u>	<u>2,601,391</u>
Net assets, beginning of year	<u>5,119,479</u>	<u>608,504</u>	<u>5,727,983</u>	<u>2,741,015</u>	<u>385,577</u>	<u>3,126,592</u>
Net assets, end of year	<u>\$ 5,117,498</u>	<u>\$ 1,054,217</u>	<u>\$ 6,171,715</u>	<u>\$ 5,119,479</u>	<u>\$ 608,504</u>	<u>\$ 5,727,983</u>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2016 and 2015**

	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	
<u>December 31, 2016</u>								
Cash donations	\$ 2,987,405	\$ 192,420	\$ 33,150	\$ 178,586	\$ 8,000	\$ -	\$ -	\$ 3,399,561
Equipment donations	3,674,978	182,028	-	10,726	164,470	-	-	4,032,202
Food and supplies	-	-	-	9,238	-	-	-	9,238
Rent	-	-	-	-	-	-	5,000	5,000
Advertising and promotions	1,622	6,041	-	-	120	127,411	165	135,359
Insurance	-	-	-	-	-	-	2,140	2,140
Licenses and permits	-	-	-	-	-	25	16,378	16,403
Salaries and benefits	236,075	28,088	2,037	25,287	3,024	119,999	95,780	510,290
Professional fees	-	-	-	-	-	-	44,204	44,204
Telephone	1,548	138	9	117	18	1,093	1,317	4,240
Travel	30,819	-	-	-	11	5,889	7,866	44,585
Awards and prizes	-	-	-	-	-	108,069	-	108,069
Other expenses	5,606	-	-	-	-	61,114	60,496	127,216
Total expenses	<u>\$ 6,938,053</u>	<u>\$ 408,715</u>	<u>\$ 35,196</u>	<u>\$ 223,954</u>	<u>\$ 175,643</u>	<u>\$ 423,600</u>	<u>\$ 233,346</u>	<u>\$ 8,438,507</u>
<u>December 31, 2015</u>								
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	<u>\$ 3,885,427</u>	<u>\$ 483,581</u>	<u>\$ -</u>	<u>\$ 131,922</u>	<u>\$ 224,105</u>	<u>\$ 357,814</u>	<u>\$ 151,679</u>	<u>\$ 5,234,528</u>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 443,732	\$ 2,601,391
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	15,832	6,066
Bad debt expense	1,427	388
Unrealized (gain) loss on marketable securities	(346,349)	67,836
Changes in operating assets and liabilities:		
Contribution receivables	(154,555)	(233,917)
Other current assets	1,349	4,312
Accounts payable	(73,784)	(86,964)
Grants payable	806,400	(106,797)
Net cash provided by operating activities	<u>694,052</u>	<u>2,252,315</u>
Cash flows from investing activities:		
Purchase of marketable securities	(1,005,227)	(1,000,000)
Proceeds from sale of investments	-	24,288
Purchase of property and equipment	(93,598)	(4,573)
Net cash used by investing activities	<u>(1,098,825)</u>	<u>(980,285)</u>
Net change in cash	(404,773)	1,272,030
Cash, beginning	<u>3,131,009</u>	<u>1,858,979</u>
Cash, ending	<u>\$ 2,726,236</u>	<u>\$ 3,131,009</u>

See accompanying notes.

## **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 and disaster relief 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. The Company maintains cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) limit from time to time.



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

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***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.

***Property and equipment***

Property and equipment are recorded at cost which was \$114,769 and \$21,172 at December 31, 2016 and 2015, respectively. Depreciation is computed by straight-line methods applied to individual items, based on estimated useful lives of three years. Accumulated depreciation was \$28,656 and \$12,825 at December 31, 2016 and 2015, respectively. Additions exceeding \$750 are capitalized.

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

***Grants payable***

Grants payable represent amounts due to qualifying organizations and causes as approved by the Foundation's Board of Directors.

***Advertising***

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2016 and 2015 were \$135,359 and \$111,716, 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.

***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 2016 was \$1,000,000 (\$1,000,000 in 2015) and the value of these funds is \$3,779,436 at December 31, 2016 (\$2,427,860 at December 31, 2015) 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.

Investment income (loss) consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ <b>102,882</b>	\$ 70,742
Market depreciation	<b>263,525</b>	(127,356)
Other expenses	<u>(20,058)</u>	<u>(11,222)</u>
	<u><b>\$ 346,349</b></u>	<u>\$ (67,836)</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, 2016 and 2015 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

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

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At December 31, 2016 and December 31, 2015, all marketable securities were equity fund mutual funds classified as Level 1.

The Foundation has \$2,726,236 and \$3,131,009 in cash and cash equivalents as of December 31, 2016 and 2015, 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, 2016 and 2015, the Foundation considered all remaining receivables to be fully collectible. Accordingly, there was no allowance for doubtful accounts. There was bad debt expense of \$1,427 in 2016 (\$388 in 2015).

**5. Related Party Transactions**

The Foundation received contributions from Firehouse Subs of approximately \$137,000 for the year ended December 31, 2016 (\$143,000 in 2015).

The Foundation incurred expenses of approximately \$510,000 (\$449,000 in 2015) 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 Firehouse Subs approximately \$56,000 to the Foundation as of December 31, 2016, which is included in the accounts payable and accrued expense. Firehouse Subs owes the Foundation approximately \$101,000 as of December 31, 2015 which is included in the contribution receivables.

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, 2016 and 2015 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, 2016 and December 31, 2015 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 2015 financial statements have been reclassified for comparative purposes to conform to 2016 presentation.

**9. Subsequent Events**

The Foundation evaluated the effect subsequent events would have on the financial statements through April 19 2017, which is the date the financial statements were available to be issued.