

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

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**Financial Statements**

**Years Ended December 31, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 27, 2018**

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,304,508	\$ 2,726,236
Marketable securities	5,707,452	3,779,436
Contributions receivable	413,843	598,774
Due from related parties	224,645	43,287
Other current assets	21,686	17,101
	<u>9,672,134</u>	<u>7,164,834</u>
Total current assets	9,672,134	7,164,834
Property and equipment, net	<u>54,074</u>	<u>86,113</u>
	<u>\$ 9,726,208</u>	<u>\$ 7,250,947</u>
Total assets	<u>\$ 9,726,208</u>	<u>\$ 7,250,947</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,684	\$ 44,245
Due to related party	115,807	99,301
Grants payable	515,957	935,686
	<u>684,448</u>	<u>1,079,232</u>
Total current liabilities	684,448	1,079,232
Net assets:		
Unrestricted	7,272,283	5,117,498
Temporarily restricted	1,769,477	1,054,217
	<u>9,041,760</u>	<u>6,171,715</u>
Total net assets	9,041,760	6,171,715
Total liabilities and net assets	<u>\$ 9,726,208</u>	<u>\$ 7,250,947</u>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and other revenue:						
Contributions	\$ 7,259,671	\$ 2,360,724	\$ 9,620,395	\$ 7,259,940	\$ 1,156,858	\$ 8,416,798
In-kind donations	7,400	-	7,400	12,613	-	12,613
Investment income	937,411	-	937,411	346,349	-	346,349
Other income	31,941	-	31,941	20,058	-	20,058
Special events	153,563	-	153,563	173,866	-	173,866
Less: direct expenses	(66,865)	-	(66,865)	(87,445)	-	(87,445)
Total support	<u>8,323,121</u>	<u>2,360,724</u>	<u>10,683,845</u>	<u>7,725,381</u>	<u>1,156,858</u>	<u>8,882,239</u>
Net assets released from restrictions	<u>1,645,464</u>	<u>(1,645,464)</u>	<u>-</u>	<u>711,145</u>	<u>(711,145)</u>	<u>-</u>
Total support and other revenue	<u>9,968,585</u>	<u>715,260</u>	<u>10,683,845</u>	<u>8,436,526</u>	<u>445,713</u>	<u>8,882,239</u>
Expense:						
Program services	6,988,726	-	6,988,726	7,781,561	-	7,781,561
Supporting services:						
Fundraising	512,725	-	512,725	423,600	-	423,600
General and administrative	312,349	-	312,349	233,346	-	233,346
Total support services	<u>825,074</u>	<u>-</u>	<u>825,074</u>	<u>656,946</u>	<u>-</u>	<u>656,946</u>
Total expenses	<u>7,813,800</u>	<u>-</u>	<u>7,813,800</u>	<u>8,438,507</u>	<u>-</u>	<u>8,438,507</u>
Change in net assets	<u>2,154,785</u>	<u>715,260</u>	<u>2,870,045</u>	<u>(1,981)</u>	<u>445,713</u>	<u>443,732</u>
Net assets, beginning 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>
Net assets, end of year	<u>\$ 7,272,283</u>	<u>\$ 1,769,477</u>	<u>\$ 9,041,760</u>	<u>\$ 5,117,498</u>	<u>\$ 1,054,217</u>	<u>\$ 6,171,715</u>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2017 and 2016**

	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, 2017</u>								
Cash donations	\$ 3,396,397	\$ 101,892	\$ -	\$ 63,341	\$ 12,880	\$ -	\$ -	\$ 3,574,510
Equipment donations	2,812,196	127,097	-	8,455	66,751	-	-	3,014,499
Food and supplies	-	-	-	43,677	-	-	-	43,677
Rent	-	-	-	-	-	-	5,000	5,000
Advertising and promotions	9,598	1,607	-	6,360	-	183,062	203	200,830
Insurance	-	-	-	-	-	-	2,144	2,144
Licenses and permits	-	-	-	-	-	-	18,457	18,457
Salaries and benefits	268,386	11,439	-	14,643	9,646	104,347	131,240	539,701
Professional fees	74	-	-	-	-	5,000	54,013	59,087
Telephone	1,780	164	8	126	25	1,274	1,572	4,949
Travel	30,835	29	-	246	-	3,797	5,075	39,982
Awards and prizes	-	-	-	-	-	99,897	-	99,897
Other expenses	1,031	-	-	43	-	115,348	94,645	211,067
<b>Total expenses</b>	<b>\$ 6,520,297</b>	<b>\$ 242,228</b>	<b>\$ 8</b>	<b>\$ 136,891</b>	<b>\$ 89,302</b>	<b>\$ 512,725</b>	<b>\$ 312,349</b>	<b>\$ 7,813,800</b>
<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
<b>Total expenses</b>	<b>\$ 6,938,053</b>	<b>\$ 408,715</b>	<b>\$ 35,196</b>	<b>\$ 223,954</b>	<b>\$ 175,643</b>	<b>\$ 423,600</b>	<b>\$ 233,346</b>	<b>\$ 8,438,507</b>

See accompanying notes.

**Firehouse Subs Public Safety Foundation, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,870,045	\$ 443,732
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	33,541	15,832
Bad debt expense	2,324	1,427
Unrealized gain on marketable securities	(937,411)	(346,349)
Changes in operating assets and liabilities:		
Contributions receivable	182,607	(298,131)
Other current assets	(4,585)	1,349
Accounts payable	8,439	(87,548)
Grants payable	(419,729)	806,400
Net cash provided by operating activities	<u>1,735,231</u>	<u>536,712</u>
Cash flows from investing activities:		
Purchase of marketable securities	(990,605)	(1,005,227)
Purchase of property and equipment	(1,502)	(93,598)
Net cash used by investing activities	<u>(992,107)</u>	<u>(1,098,825)</u>
Cash flows from financing activities:		
Net loans (to) repayments from related parties	(164,852)	157,340
Net cash provided (used) by financing activities	<u>(164,852)</u>	<u>157,340</u>
Net change in cash	578,272	(404,773)
Cash and cash equivalents, beginning of year	<u>2,726,236</u>	<u>3,131,009</u>
Cash and cash equivalents, end of year	<u>\$ 3,304,508</u>	<u>\$ 2,726,236</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 United States 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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***Marketable securities***

Marketable securities are recorded at fair value. The fair value of marketable securities 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.

***Investment return objectives, risk parameters and strategies***

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to Foundation programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to produce total returns sufficient to grow the fund balance in perpetuity and to support future spending for the purposes approved by the Board of Directors or as originally directed by the donor. Endowment assets are invested in a well-diversified asset mix and the Foundation has established allowable ranges by asset class within the portfolio. These asset classes may include: core domestic and international equities, style specific domestic and international equities, small company equities, whether core or style specific, both domestic and international; domestic fixed income securities, global fixed income securities and cash equivalents. In addition, an allocation to hard assets and alternative investments may be included.

Investment performance will be reviewed at least annually by the Board of Directors to determine the continued feasibility of achieving the investment objectives. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

***Contributions receivable***

Contributions are recognized when the donor makes an unconditional promise to give to the Foundation and are recorded under revenues, gains and other support. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets.

Management evaluates total receivables, and includes in the allowance for doubtful accounts an estimate of losses to be sustained. Uncollectible amounts are charged against the allowance account when management determines the possibility of collection is remote. The allowance for doubtful accounts was zero at December 31, 2017 and 2016. No interest is charged on receivables that are past due.

***Property and equipment***

Property and equipment are recorded at cost which was \$116,269 and \$114,769 at December 31, 2017 and 2016, respectively. Depreciation is computed by straight-line methods applied to individual items, based on estimated useful lives of three years. Accumulated depreciation was \$62,195 and \$28,656 at December 31, 2017 and 2016, 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.

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

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***Quasi-endowment***

The Foundation has established and plans to grow a quasi-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.

***Advertising***

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2017 and 2016 were \$200,830 and \$135,359, 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.

***Firehouse Subs Public Safety Foundation, Inc. Designated Fund***

In December 2017, a related party contributed \$1,000,000 to establish the Firehouse Subs Public Safety Foundation, Inc. Designated Fund (the "Fund"). The Fund is held at The Community Foundation of Northeast Florida, Inc. (the "Community Foundation") to benefit the Foundation. The Community Foundation maintains variance power over the Fund, therefore the asset is recorded by the Community Foundation and revenue will be recognized by the Foundation as the Community Foundation releases funds to the Foundation. The Fund had a balance of \$1,000,109 as of December 31, 2017, including net investment earnings of \$109 since inception.

***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.

***Reclassifications***

Certain amounts in the 2016 financial statements have been reclassified for comparative purposes to conform to the 2017 presentation.

**2. Marketable Securities**

The Board of Directors ("the Board") established a quasi-endowment fund (the "quasi-endowment fund") in 2014 to invest certain unrestricted contributions as approved by the Board. \$1,000,000 was transferred from cash to the quasi-endowment fund in 2017 (\$1,000,000 in 2016). The overall value of the quasi-endowment fund is \$5,707,452 at December 31, 2017 (\$3,779,436 at December 31, 2016) with substantially all assets in mutual funds. It is the intention of the Foundation to have this quasi-endowment fund treated as an endowment, with principal to remain intact and only interest to be spent, although any portion may be spent at the Board's discretion. Therefore, the fund has been included in unrestricted net assets.

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

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Investment income consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 190,606	\$ 102,882
Market appreciation	778,746	263,525
Other expenses	<u>(31,941)</u>	<u>(20,058)</u>
	<u>\$ 937,411</u>	<u>\$ 346,349</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, 2017 and 2016 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

At December 31, 2017 and December 31, 2016, all marketable securities were equity fund mutual funds classified as Level 1.

The Foundation has \$3,304,508 and \$2,726,236 in cash and cash equivalents as of December 31, 2017 and 2016, which was not classified as a Level as prescribed within the fair value hierarchy.

#### **4. Contributions Receivable**

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, 2017 and 2016, the Foundation considered all remaining receivables to be fully collectible. Accordingly, there was no allowance for doubtful accounts. There was bad debt expense of \$2,324 in 2017 (\$1,427 in 2016).

#### **5. Related Party Transactions**

The Foundation received contributions from Firehouse Subs of approximately \$137,000 for the years ended December 31, 2017 and 2016.

The Foundation incurred expenses of approximately \$540,000 (\$510,000 in 2016) 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 has certain amounts due to and from related parties that are unsecured and due upon demand. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

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, 2017 and 2016 respectively.

Firehouse of America, LLC ("FOA") is in the business of franchising Firehouse Subs branded restaurants. FOA conducted a sales promotion for the year ended December 31, 2017, whereby FOA donated to the Foundation a sum equivalent to 0.13% of all gross sales generated during the fiscal year commencing December 26, 2016 and ending December 31, 2017. Based upon past sales revenue from the restaurants, the donation amount was a minimum guaranteed donation of \$1,000,000. The donation is restricted for life-saving equipment to first responders. This amount was contributed to the Foundation in 2017 and is included in restricted contributions.

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, 2017 and December 31, 2016 consist of amounts received by the Foundation designated by donors generally for specific disaster relief and United States military initiatives.

#### **7. Concentrations**

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

**8. Donated Services**

A substantial number of individuals and organizations have made significant contributions of time and expertise in the furtherance of the Foundation's programs. The value of contributed time and expertise is not reflected in these statements, since it does not lend itself to objective measurement.

**9. Subsequent Events**

The Foundation evaluated the effect subsequent events would have on the financial statements through April 27, 2018, which is the date the financial statements were available to be issued.