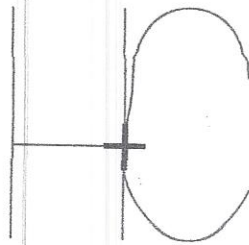


CELL PHONES FOR SOLDIERS, INC.

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*Certified Public Accountants*

David J. McCaughin, CPA  
John S. McNamara, CPA

### Independent Auditors' Report

To the Board of Directors  
Cell Phones for Soldiers, Inc.  
Norwell, Massachusetts

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Cell Phones for Soldiers, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, 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 audit opinion.

To the Board of Directors

Page two

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cell Phones for Soldiers, Inc. as of December 31, 2012 , 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.

*Hughes and Company, P.C.*

HUGHES AND COMPANY, P.C.

Melrose, Massachusetts

January 8, 2013

CELL PHONES FOR SOLDIERS, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2012

<u>ASSETS</u>	
Current Assets	
Cash	\$ 1,672,381
Receivables	210,233
Total Current Assets	<u>1,882,614</u>
Depreciable Assets	
Total depreciable assets, at acquisition cost	49,898
Less accumulated depreciation	(12,318)
Net Depreciable Assets	<u>37,580</u>
Total Assets	<u>\$ 1,920,194</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts payable	\$ 9,084
Total Current Liabilities	<u>9,084</u>
Net Unrestricted Assets	<u>1,911,110</u>
Total Liabilities and Net Assets	<u>\$ 1,920,194</u>

The accompanying notes are an integral part of the financial statements.

CELL PHONES FOR SOLDIERS, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012

Revenues	
Donations	<u>\$ 1,355,993</u>
Expenses	
Program Services	1,639,846
Management and General	56,654
Fundraising	<u>181,284</u>
Total Expenses	<u>1,877,784</u>
Change in Net Unrestricted Assets before Interest Income	<u>(521,791)</u>
Interest income	<u>3,861</u>
Change in Net Unrestricted Assets	<u>(517,930)</u>
Net Unrestricted Assets, Beginning of Year	<u>2,429,040</u>
Net Assets, End of Year	<u><u>\$ 1,911,110</u></u>

The accompanying notes are an integral part of the financial statements.

CELL PHONES FOR SOLDIERS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses				
Officers' Salaries	\$ 67,957	\$ 9,707	\$ 19,416	\$ 97,080
Other Salaries	34,400	-	-	34,400
Payroll Taxes	7,233	1,206	3,617	12,056
Auto, Travel, Meals	2,607	5,215	18,251	26,073
Bad debts	346,288	-	-	346,288
Charitable Contributions	7,050	-	-	7,050
Depreciation	-	5,084	-	5,084
Filing Fees	-	3,945	-	3,945
Fundraising	-	-	16,792	16,792
Internet	1,268	2,535	8,873	12,676
Office	-	15,842	-	15,842
Outside Services	-	4,000	114,335	118,335
Postage	18,811	-	-	18,811
Prepaid phone cards	1,099,860	-	-	1,099,860
Professional Fees	-	4,851	-	4,851
Rent	4,269	4,269	-	8,538
Veteran Assistance	50,103	-	-	50,103
Total Expenses	<u>\$ 1,639,846</u>	<u>\$ 56,654</u>	<u>\$ 181,284</u>	<u>\$ 1,877,784</u>

The accompanying notes are an integral part of the financial statements.

CELL PHONES FOR SOLDIERS, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2012

Cash Flows from Operating Activities	
Change in net assets	\$ (517,930)
Adjustments to reconcile change in net assets to net cash from operations:	
Depreciation	5,084
Bad Debts	346,288
(Increase) decrease in operating assets:	
Receivables	265,690
Prepaid expenses and deferred charges	10,942
Increase (decrease) in operating liabilities:	
Accounts payable	<u>2,935</u>
Net Cash Provided by Operating Activities	<u>113,009</u>
Cash Flows from Investing Activities:	
Purchase of vehicle and equipment	<u>(40,488)</u>
Net Cash Used in Investing Activities	<u>(40,488)</u>
Net Increase in Cash	72,521
Cash, Beginning	<u>1,599,860</u>
Cash, Ending	<u>\$ 1,672,381</u>
Supplemental cash flows information:	
Interest and late fees paid:	<u>-</u>

The accompanying notes are an integral part of the financial statements.

CELL PHONES FOR SOLDIERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Note 1 - Organization

Cell Phones for Soldiers, Inc. (the Organization) is a non-profit organization established to assist United States military personnel serving overseas in communicating with their families and friends. The Organization accepts donations and has implemented a cell phone recycling program to raise funds, which are then used to purchase phone systems and prepaid calling cards for military personnel. The Organization was incorporated in July 2004 in Massachusetts.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes:

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

Temporarily Restricted Net Assets - Net assets for which use is limited by donor-imposed restrictions that will either expire with the passage of time or be fulfilled by the Organization.

Permanently Restricted Net Assets - Net assets which must be held in perpetuity as stipulated by the donor.

Donor restricted gifts that are received and expended within the same year are reported as unrestricted.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.



CELL PHONES FOR SOLDIERS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

When cell phones are donated they are sent to a recycler who converts them to cash and the amount agreed upon is recorded as a donation and an account receivable.

The Organization agreed to convert an account receivable into a non-interest bearing note receivable. This note receivable was defaulted on in 2011. The remaining balance of the note receivable in the amount of \$346,288 was written off in 2012.

Depreciable Assets

Depreciable assets are recorded at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$300. Lesser amounts are expensed. The Organization provides for depreciation on the straight-line method over the estimated useful lives of the respective assets. Donations of equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Depreciation expense was \$5,084 for the year ended December 31, 2012.

Income Taxes

Cell Phones for Soldiers, Inc. is a not-for-profit organization exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. However, the Organization is subject to federal taxes on unrelated business income.

The Organization does file tax returns with the Internal Revenue Service. The amounts reported on these financial statements are the same as those reported to the Internal Revenue Service.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are charged directly to program, management, general and fundraising categories based on specific identification. Indirect expenses have been allocated based on salary and subcontract expenditures.

CELL PHONES FOR SOLDIERS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Donated Services

The Organization receives donated services from a variety of volunteers assisting in the operation and administration of its program. No amounts have been recognized in the accompanying Statement of Activities for donations or services rendered.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Uncertainty in Income Taxes

The Organization follows the *Accounting for Uncertainty in Income Taxes* standard which requires the Organization to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of December 31, 2012, the Organization determined that there are no material unrecognized tax benefits to report.

Information returns filed for the years ended December 31, 2011, 2010 and 2009 remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Organization does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Fair Value of Financial Instruments

Carrying amounts of certain of the Organization's financial instruments, including cash, accounts receivable, accounts payable and other liabilities, approximate fair value because of their short maturities.

Subsequent Events

The Organization has evaluated subsequent events through January 8, 2013 which is the date the financial statements were available to be issued.

CELL PHONES FOR SOLDIERS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

Note 3 - Related Party Transactions

Robert and Gail Bergquist are founders, officers, and directors of the Organization. The Organization paid Robert Bergquist \$58,333 and Gail Bergquist \$38,750 in 2012 for services rendered. The Organization paid Robert and Gail Bergquist \$9,000 for office and storage space in their home. This monthly rent was based on prevailing rents in the area. The Bergquists' children performed services for the organization and were paid in total \$34,400.

Note 4 - Concentrations of Risk - Cash Balances

The Organization maintains its cash balances in one financial institution located in the Boston area. The balances are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2012, the Organization's bank deposits exceeded the Federal insured limit by \$1,425,523. Additional insurance coverage is provided by the Deposit Insurance Fund.