

THE NICHOLAS SPARKS FOUNDATION, INC.

New Bern, North Carolina

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

THE NICHOLAS SPARKS FOUNDATION, INC.

TABLE OF CONTENTS

As of and for the Years Ended December 31, 2014 and 2013

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Change in Net Assets	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 10

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Nicholas Sparks Foundation, Inc.
New Bern, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The Nicholas Sparks Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and change in net assets, 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 Nicholas Sparks Foundation, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
November 13, 2015

FINANCIAL STATEMENTS

THE NICHOLAS SPARKS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 87,363	\$ 162,920
Contributions receivable	-	49,493
Total Current Assets	<u>87,363</u>	<u>212,413</u>
OTHER ASSETS	<u>200</u>	<u>200</u>
TOTAL ASSETS	<u>\$ 87,563</u>	<u>\$ 212,613</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 33,449	\$ 14,389
Total Current Liabilities	<u>33,449</u>	<u>14,389</u>
NET ASSETS		
Unrestricted	<u>54,114</u>	<u>198,224</u>
Total Net Assets	<u>54,114</u>	<u>198,224</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 87,563</u>	<u>\$ 212,613</u>

See notes to financial statements.

THE NICHOLAS SPARKS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUE AND OTHER SUPPORT		
Contributions	\$ 196,094	\$ 1,021,428
Royalty income	12,383	4,500
Investment income	2	10
Total Revenue and Other Support	<u>208,479</u>	<u>1,025,938</u>
EXPENSES		
Program service expenses		
Scholarships, grants and awards	88,333	1,004,854
Total Program Service Expenses	<u>88,333</u>	<u>1,004,854</u>
Supporting service expenses		
Management and general	227,412	126,656
Fundraising	36,844	44,436
Total Supporting Service Expenses	<u>264,256</u>	<u>171,092</u>
Total Expenses	<u>352,589</u>	<u>1,175,946</u>
Change in Net Assets	(144,110)	(150,008)
NET ASSETS, Beginning of Year	<u>198,224</u>	<u>348,232</u>
NET ASSETS, END OF YEAR	<u>\$ 54,114</u>	<u>\$ 198,224</u>

THE NICHOLAS SPARKS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2014 (with summarized comparative totals for 2013)

	Program Services		Supporting Services		Years Ended December 31,	
	Scholarships Grants and Awards	Management and General	Fundraising	2014	2013	
	\$	\$	\$	\$	\$	\$
Scholarships, Grants and Awards	500	-	-	500	900,000	
Salaries	62,064	62,064	27,449	151,577	132,545	
Contract Services	18,750	18,750	-	37,500	46,035	
Professional Fees	-	106,715	-	106,715	26,076	
Employee Benefits	2,271	2,271	2,272	6,814	13,314	
Taxes and Licenses	4,748	7,930	2,100	14,778	13,755	
Scholarships - Global Travel	-	-	-	-	10,000	
Rent	-	9,600	-	9,600	9,600	
Travel and Entertainment	-	8,152	-	8,152	7,159	
Advertising	-	-	2,465	2,465	3,200	
Supplies	-	2,021	984	3,005	4,853	
Utilities	-	3,786	-	3,786	4,065	
Postage and Freight	-	603	-	603	1,087	
Repairs and Maintenance	-	1,161	-	1,161	854	
Miscellaneous	-	346	-	346	814	
Dues and Subscriptions	-	235	-	235	737	
Conferences	-	2,829	-	2,829	590	
Insurance	-	373	-	373	517	
Bank Charges	-	546	-	546	377	
Telephone	-	30	-	30	368	
Public Relations	-	-	1,574	1,574	-	
TOTAL FUNCTIONAL EXPENSES	\$ 88,333	\$ 227,412	\$ 36,844	\$ 352,589	\$ 1,175,946	

See notes to financial statements.

THE NICHOLAS SPARKS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2013

	Program Services	Supporting Services		2013 Total Expenses
	Scholarships Grants and Awards	Management and General	Fundraising	
Scholarships, Grants and Awards	\$ 900,000	\$ -	\$ -	\$ 900,000
Salaries	49,270	49,270	34,005	132,545
Contract Services	37,415	8,620	-	46,035
Professional Fees	-	26,076	-	26,076
Employee Benefits	4,438	4,438	4,438	13,314
Taxes and Licenses	3,731	7,422	2,602	13,755
Scholarships - Global Travel	10,000	-	-	10,000
Rent	-	9,600	-	9,600
Travel and Entertainment	-	7,159	-	7,159
Advertising	-	-	3,200	3,200
Supplies	-	4,662	191	4,853
Utilities	-	4,065	-	4,065
Postage and Freight	-	1,087	-	1,087
Repairs and Maintenance	-	854	-	854
Miscellaneous	-	814	-	814
Dues and Subscriptions	-	737	-	737
Conferences	-	590	-	590
Insurance	-	517	-	517
Bank Charges	-	377	-	377
Telephone	-	368	-	368
TOTAL FUNCTIONAL EXPENSES	\$ 1,004,854	\$ 126,656	\$ 44,436	\$ 1,175,946

See notes to financial statements.

THE NICHOLAS SPARKS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (144,110)	\$ (150,008)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Decrease (increase) in assets		
Contributions receivable	49,493	(49,493)
Increase in liabilities		
Accounts payable and accrued expenses	19,060	2,199
Total Adjustments	<u>68,553</u>	<u>(47,294)</u>
Net Cash Flows from Operating Activities	<u>(75,557)</u>	<u>(197,302)</u>
Net Change in Cash and Cash Equivalents	(75,557)	(197,302)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>162,920</u>	<u>360,222</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 87,363</u>	<u>\$ 162,920</u>

See notes to financial statements.

THE NICHOLAS SPARKS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies

Nature of Operations

The Nicholas Sparks Foundation, Inc. (the "Foundation"), located in New Bern, North Carolina, is a not-for-profit organization which strives to increase access to innovative global learning opportunities for students across America. The Foundation's flagship scholarship program provides unique access to a globally-focused college preparatory education for youth from poor communities in rural America at the Epiphany School of Global Studies (the "Epiphany School") in New Bern, North Carolina.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalent.

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - Net assets which are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.

Temporarily restricted - Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation and/or passage of time. As such restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities and change in net assets as net assets released from restriction.

Permanently restricted - Net assets subject to donor-imposed restrictions, which stipulate that the corpus be maintained permanently by the Foundation, but permit the Foundation to expand part or all of the income and gains derived therefrom based on the donors' intentions.

As of December 31, 2014 and 2013, there were no permanently or temporarily restricted net assets.

Donor-Imposed Restrictions

The Foundation reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in unrestricted support.

THE NICHOLAS SPARKS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies (cont.)

Contributions and Promises to Give

Contributions are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support. Contributions of property and services are recorded at fair value of the property and services at the time of the contribution. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All contributions receivable as of December 31, 2013 were due in one year or less.

Revenue Recognition

The Foundation receives substantially all of its revenue from contributions and promises to give. Revenue is recognized as earned when contributions are received. The Foundation also derives revenue from a royalty agreement entered into between the Foundation and an outside unrelated party. Pursuant to the terms of this agreement, the Foundation earns royalty income from the sale of fine jewelry which "commemorate literary works of Nicholas Sparks". Royalty income is paid to the Foundation on a monthly basis in an amount equal to 75% of the gross profit on all items sold.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 those estimates.

Allowance for Doubtful Accounts

Management must make estimates of the uncollectability of all contributions receivable. Management specifically analyzes receivables, historical bad debts and changes in circumstances when evaluating the adequacy of the allowance for doubtful accounts. The Foundation has determined that an allowance for doubtful accounts is not required as of December 31, 2013.

Donated Services and Materials

The Foundation relies upon the utilization of volunteers to carry out its mission. Because these services do not meet the recognition criteria under U.S. GAAP, the value of these contributions is not recorded, although they constitute a significant factor in the operation of the Foundation.

Tax-Exempt Status

The Foundation qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a not-for-profit organization under the laws of North Carolina. Accordingly, no provision for federal or state income taxes is required.

THE NICHOLAS SPARKS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies (cont.)

Uncertain Tax Positions

Management has evaluated the Foundation's tax positions and concluded that the Foundation has not taken any uncertain tax positions that require adjustment to the financial statements to comply with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 740. Tax year 2012 and subsequent years are subject to income tax examinations by the United States federal, state or local tax authorities.

Functional Allocation of Expenses

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

Advertising

All costs associated with advertising are expensed as incurred. Advertising costs of approximately \$2,500 and \$3,200 were recorded for the years ended December 31, 2014 and 2013, respectively.

Evaluation of Subsequent Events

Management has evaluated subsequent events through November 13, 2015, the date the financial statements are available for issuance, for inclusion or disclosure in the financial statements.

NOTE 2 - Concentrations of Credit Risk

The Foundation's financial instruments that are potentially exposed to concentrations of credit risk consist principally of cash and cash equivalents. The Foundation places its cash and cash equivalents with what it believes to be a qualified financial institution. At times, certain of the Foundation's cash balances exceeded the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Foundation believes its concentration of credit risk with respect to its cash and cash equivalents is limited.

For the year ended December 31, 2013, the Foundation received contributions from one donor approximating 78% of total contributions during 2013. During 2014, there were no contributions from this donor.

NOTE 3 - Transactions with Related Parties

The Foundation is related to the Epiphany School and Willow Holdings, Inc. through common founder and ownership.

The Foundation is engaged in related party transactions with the aforementioned entities as follows:

- a) Willow Holdings, Inc. provides contributions to the Foundation to fund scholarship, grant and awards request received throughout the year. For the year ended December 31, 2013, the Foundation received \$800,000 in contributions from Willow Holdings, Inc. For the year ended December 31, 2014, the Foundation did not receive contributions from Willow Holdings, Inc.
- b) For the year ended December 31, 2013, the Foundation provided \$900,000 of scholarships, grants and awards to the Epiphany School. For the year ended December 31, 2014, the Foundation did not provide any grants or awards to the Epiphany School.

THE NICHOLAS SPARKS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2014 and 2013

NOTE 4 - Contingencies

Litigation

The Foundation is involved in litigation through the normal course of business. The Foundation believes that the resolution of this matter will not have a material adverse effect on its financial position.