



Consolidated Financial Statements  
December 31, 2022 and 2021

# Folds of Honor Foundation

# Folds of Honor Foundation

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December 31, 2022 and 2021

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## Independent Auditor's Report

To the Board of Directors  
Folds of Honor Foundation  
Owasso, Oklahoma

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Folds of Honor Foundation, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Folds of Honor Foundation as of December 31, 2022 and 2021, 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.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Folds of Honor Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Folds of Honor Foundation's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Folds of Honor Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Folds of Honor Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Eide Bailly LLP*

Tulsa, Oklahoma  
August 8, 2023

Folds of Honor Foundation  
Consolidated Statements of Financial Position  
December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 40,503,046	\$ 46,199,283
Certificates of deposit	-	255,051
Operating investments	20,995,470	13,979,138
Accounts receivable	59,929	85,828
Accounts receivable - related party	5,742	-
Employee retention credit receivable	663,984	-
Promises to give	795,296	386,407
Prepaid expenses and other assets	915,686	261,936
Inventory	324,528	166,223
Property and equipment, net	15,806,923	5,702,766
Interest in net assets of chapters	6,137,088	4,972,470
Beneficial interest in assets held by community foundation	10,592	12,651
Beneficial interest in perpetual trust	902,342	1,011,962
	\$ 87,120,626	\$ 73,033,715
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 112,663	\$ 65,606
Accrued expenses and other liabilities	13,464,790	10,337,736
Deferred revenue	10,779	27,371
	13,588,232	10,430,713
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	64,490,881	54,738,498
With donor restrictions		
Purpose restrictions	7,343,875	6,466,135
Time-restricted for future periods	1,697,638	1,398,369
	9,041,513	7,864,504
Total net assets	73,532,394	62,603,002
Total liabilities and net assets	\$ 87,120,626	\$ 73,033,715

Folds of Honor Foundation  
Consolidated Statement of Activities  
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Merchandise sales	\$ 672,619	\$ -	\$ 672,619
Less cost of goods sold	(369,910)	-	(369,910)
Net merchandise sales	302,709	-	302,709
Net investment return	(637,555)	-	(637,555)
Other revenue	72,353	-	72,353
Contributions	16,121,900	795,296	16,917,196
Employee retention credit	663,984	-	663,984
In-kind contributions	3,985,908	-	3,985,908
Gross special events revenue	19,574,754	-	19,574,754
Less cost of direct benefits to donors	(550,022)	-	(550,022)
Net special events revenue	19,024,732	-	19,024,732
Distributions from and change in value of beneficial interests in assets held by others	(2,059)	(109,620)	(111,679)
Change in interest in net assets of chapters	-	18,273,427	18,273,427
Net assets released from restrictions	17,782,094	(17,782,094)	-
Total revenue, support, and gains	57,314,066	1,177,009	58,491,075
Expenses and Losses			
Program services expense	42,404,971	-	42,404,971
Supporting services expense			
Management and general	2,406,218	-	2,406,218
Fundraising and development	2,750,494	-	2,750,494
Total supporting services expenses	5,156,712	-	5,156,712
Total expenses and losses	47,561,683	-	47,561,683
Change in Net Assets	9,752,383	1,177,009	10,929,392
Net Assets, Beginning of Year	54,738,498	7,864,504	62,603,002
Net Assets, End of Year	\$ 64,490,881	\$ 9,041,513	\$ 73,532,394

Folds of Honor Foundation  
Consolidated Statement of Activities  
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Merchandise sales	\$ 569,574	\$ -	\$ 569,574
Less cost of goods sold	(296,675)	-	(296,675)
Net merchandise sales	272,899	-	272,899
Net investment return	487,215	-	487,215
Other revenue	240,636	-	240,636
Contributions	16,421,230	667,407	17,088,637
In-kind contributions	577,196	-	577,196
Gross special events revenue	17,725,228	-	17,725,228
Less cost of direct benefits to donors	(356,369)	-	(356,369)
Net special events revenue	17,368,859	-	17,368,859
Distributions from and change in value of beneficial interests in assets held by others	1,448	28,195	29,643
Change in interest in net assets of chapters	-	16,281,403	16,281,403
Net assets released from restrictions	15,004,376	(15,004,376)	-
Total revenue, support, and gains	50,373,859	1,972,629	52,346,488
Expenses and Losses			
Program services expense	30,885,739	-	30,885,739
Supporting services expense			
Management and general	1,526,721	-	1,526,721
Fundraising and development	2,100,056	-	2,100,056
Total supporting services expenses	3,626,777	-	3,626,777
Total expenses and losses	34,512,516	-	34,512,516
Change in Net Assets	15,861,343	1,972,629	17,833,972
Net Assets, Beginning of Year	38,877,155	5,891,875	44,769,030
Net Assets, End of Year	\$ 54,738,498	\$ 7,864,504	\$ 62,603,002

Folds of Honor Foundation  
Consolidated Statements of Functional Expenses  
Year Ended December 31, 2022

	Program Services	Management and General	Fundraising and Development	Cost of Direct Benefit to Donors	Total
Scholarships	\$ 31,968,770	\$ -	\$ -	\$ -	\$ 31,968,770
Salaries and wages	4,316,496	860,667	573,151	-	5,750,314
Advertising	1,288,667	-	859,111	-	2,147,778
Employee benefits	991,146	136,857	76,626	-	1,204,629
Travel and training	538,443	-	42,799	-	581,242
Receptions and events	1,313,284	348,058	562,150	550,022	2,773,514
Payroll taxes	348,588	41,010	20,505	-	410,103
Communications	84,958	4,271	45,248	-	134,477
Information technology	250,982	77,225	57,919	-	386,126
Promotional expense	282,255	169,353	112,902	-	564,510
Other	267,589	154,563	103,165	-	525,317
Postage and printing	251,969	85,903	47,378	-	385,250
Depreciation and amortization	111,589	66,953	44,635	-	223,177
Insurance	95,553	19,111	12,740	-	127,404
Professional services	92,523	115,653	23,131	-	231,307
Occupancy	50,630	10,126	6,751	-	67,507
Equipment rental and maintenance	146,182	29,236	19,491	-	194,909
Security	5,347	891	2,674	-	8,912
Bank charges	-	140,118	140,118	-	280,236
Cost of Goods Sold	-	-	369,910	-	369,910
Cottage operating expenses	-	146,223	-	-	146,223
	<u>42,404,971</u>	<u>2,406,218</u>	<u>3,120,404</u>	<u>550,022</u>	<u>48,481,615</u>
Less expenses included with revenues on the consolidated statement of activities					
Cost of goods sold	-	-	(369,910)	-	(369,910)
Cost of direct benefits to donors	-	-	-	(550,022)	(550,022)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(550,022)</u>	<u>(550,022)</u>
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 42,404,971</u>	<u>\$ 2,406,218</u>	<u>\$ 2,750,494</u>	<u>\$ -</u>	<u>\$ 47,561,683</u>



Folds of Honor Foundation  
Consolidated Statements of Functional Expenses  
Year Ended December 31, 2021

	Program Services	Management and General	Fundraising and Development	Cost of Direct Benefit to Donors	Total
Scholarships	\$ 23,689,196	\$ -	\$ -	\$ -	\$ 23,689,196
Salaries and wages	3,170,543	631,880	420,723	-	4,223,146
Advertising	1,005,300	-	670,200	-	1,675,500
Employee benefits	734,782	101,369	56,726	-	892,877
Travel and training	442,051	-	53,210	-	495,261
Receptions and events	415,487	83,097	358,097	356,369	1,213,050
Payroll taxes	259,680	30,551	15,275	-	305,506
Communications	243,941	8,402	140,222	-	392,565
Information technology	192,574	59,254	44,440	-	296,268
Promotional expense	178,858	107,315	71,543	-	357,716
Other	169,430	101,934	67,932	-	339,296
Postage and printing	133,655	43,872	23,745	-	201,272
Depreciation and amortization	87,056	52,234	34,822	-	174,112
Insurance	74,115	14,823	9,882	-	98,820
Professional services	47,676	59,595	11,919	-	119,190
Occupancy	25,351	5,070	3,380	-	33,801
Equipment rental and maintenance	10,001	2,000	1,333	-	13,334
Security	6,043	1,008	3,023	-	10,074
Bank charges	-	113,584	113,584	-	227,168
Cost of goods sold	-	-	296,675	-	296,675
Cottage operating expenses	-	110,733	-	-	110,733
	<u>30,885,739</u>	<u>1,526,721</u>	<u>2,396,731</u>	<u>356,369</u>	<u>35,165,560</u>
Less expenses included with revenues on the consolidated statement of activities					
Cost of goods sold	-	-	(296,675)	-	(296,675)
Cost of direct benefits to donors	-	-	-	(356,369)	(356,369)
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 30,885,739</u>	<u>\$ 1,526,721</u>	<u>\$ 2,100,056</u>	<u>\$ -</u>	<u>\$ 34,512,516</u>

Folds of Honor Foundation  
Consolidated Statements of Cash Flow  
Year Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Change in Net Assets to Net Cash		
from (used for) Operating Activities		
Change in net assets	\$ 10,929,392	\$ 17,833,972
Adjustments to reconcile change in net assets to net cash		
from (used for) operating activities		
Depreciation and amortization	223,177	174,112
Interest income on certificates of deposit	(1,022)	(1,272)
Realized and unrealized loss (gain) on operating investments	983,668	(382,901)
Change in beneficial interests in assets held by others	111,902	(29,444)
Change in interest in net assets of chapters	(18,273,427)	(16,281,403)
Changes in operating assets and liabilities		
Accounts receivable	(643,827)	(57,562)
Promises to give	(408,889)	(141,604)
Prepaid expenses and other assets	(653,750)	(167,416)
Inventories	(158,305)	(63,857)
Accounts payable	47,057	864
Accrued expenses and other liabilities	3,127,054	5,352,975
Deferred revenue	(16,592)	(1)
Net Cash from (used for) Operating Activities	(4,733,562)	6,236,463
Investing Activities		
Purchases of operating investments	(8,000,000)	(7,369,937)
Redemption of certificates of deposit	256,073	-
Additions to beneficial interests in assets held by others	(223)	(199)
Purchases of property and equipment	(10,327,334)	(1,903,810)
Contributions received from chapters	17,108,809	14,466,212
Net Cash from (used for) Investing Activities	(962,675)	5,192,266
Net Change in Cash and Cash Equivalents	(5,696,237)	11,428,729
Cash and Cash Equivalents, Beginning of Year	46,199,283	34,770,554
Cash and Cash Equivalents, End of Year	\$ 40,503,046	\$ 46,199,283

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Folds of Honor Foundation (the Foundation), is a nonprofit organization established in May 2007 to provide financial assistance for the education of spouses and dependent children of military and first responders men/women who are either killed or permanently disabled while serving and defending our great nation. As of December 31, 2022, the Foundation has awarded approximately 42,600 scholarships to help defray educational expenses, including tuition and fees, books, instructional supplies and equipment, and room and board. It is expected the Foundation will award another 9,000 scholarships for the upcoming school year.

### **Principals of Consolidation**

The consolidated financial statements include the accounts of the Folds of Honor Foundation, FHF Honor Cottage, LLC (Honor Cottage), and The Patriot Cottages, LLC, because the Foundation has both control and economic interests in the cottages. All significant intercompany accounts have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Foundation.

### **Cash and Cash Equivalents**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for cottage rentals. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2022 and 2021, no allowance was considered necessary.

### **Employee Retention Credit**

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at \$7,000 per quarter. As a result of the changes to the credit, the maximum credit per employee increased from \$10,000 in 2020 to \$21,000 in 2021.

During the year ended December 31, 2022, the Company recorded a \$663,984 benefit related to the credit which is presented in the consolidated statements of financial position as employee retention credit receivable and in the consolidated statements of activities as employee retention credit.

### **Promises to Give**

The Foundation records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2022 and 2021, no allowance was considered necessary.

### **Inventory**

Inventory is comprised of program-related merchandise held for sale by the Foundation and is stated at the lower of cost or net realizable value determined by the first-in first-out method. The Foundation has determined that an allowance for inventory obsolescence was not warranted at December 31, 2022 and 2021.

### **Property and Equipment**

Property and equipment additions over \$2,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2022 and 2021.

### **Beneficial Interest in Assets Held by Community Foundation**

The Foundation established a reserve endowment fund (the Fund) under Tulsa Community Foundation's (TCF) Non-profit Preservation Endowment Challenge Grant program and named itself beneficiary. The Foundation granted variance power to TCF which allows TCF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of TCF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by TCF for the benefit of the Foundation and is reported at fair value in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

### **Beneficial Interest in Perpetual Trust**

The Foundation has been named as an irrevocable beneficiary of a perpetual trust held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Foundation; however, the Foundation will never receive the assets of the trusts. At the date the Foundation receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the consolidated statements of activities and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

The Foundation has a beneficial interest in a perpetual purpose trust from the Domroe, Edith & Alvin Foundation. The Folds of Honor Foundation is beneficiary of 18.18% of the trust. The Trust Estate includes cash, securities, or other income producing property. Distributions of earned income from the Trust are made at least annually. The Trust is held, controlled and invested by the Trustee, Seacoast Nation Bank, for the benefit of the beneficiaries and the Foundation's beneficial interest in the perpetual trust is reported at fair value in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

### **Interest in Chapters**

In the past few years, various chapters have been established to raise money for the benefit of the Foundation. There were 30 such chapters operating at December 31, 2022. The Foundation is in the process of adding two chapters in fiscal year 2023, which are not operational yet. Since the Foundation has influence over and an ongoing economic interest in its chapters, the Foundation has recorded an interest in the net assets of the various chapters. Changes in the net assets of the chapters are recorded in the Foundation's consolidated statements of activities. Distributions received from the chapters are recorded as reductions in the interest in the net assets of chapters and are generally restricted for scholarships. Since the Foundation has limited influence over the amount and timing of distributions and the chapters may impose additional restrictions on certain contributions made to chapters by donors, the net assets of the chapters are reflected as donor-restricted until the distributions are made to the Foundation and any purpose restrictions are satisfied.

## Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

## Net Assets

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

## Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. Merchandise sales are generally recognized at the time of purchase. The Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

Advance payments for cottage rentals are recorded as deferred revenue when received, and as revenue when earned.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received.

### **Advertising Costs**

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, such costs approximated \$2,148,000 and \$1,675,500, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. With the exception of scholarships for which no allocation is required, most expenses are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. Additionally, the Foundation utilizes an Insured Cash Sweep service (ICS) and a Certificate of Deposit Account Registry Service (CDARS) that allocates deposits to financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) in increments below the FDIC insured maximum amount. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. As of December 31, 2022 and 2021, the Company's cash balances exceed FDIC limitations by approximately \$3,370,000 and \$8,600,000, respectively. To date, the Foundation has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

### **Adoption of Accounting Standards Codification Topic 842**

Effective January 1, 2022, the Foundation adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Foundation elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the consolidated statements of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense.

The Foundation has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. The Foundation has also elected the practical expedient to separate lease and non-lease components for real estate and office equipment leases.

The adoption of the new standard did not materially impact the Foundation's consolidated statements of financial position, activities or cash flows.

The Foundation leases various property and equipment under month-to-month leases. Expenses under these leases were \$206,216 and \$932 in 2022 and 2021, respectively.

### **Subsequent Events**

Subsequent events have been evaluated through August 8, 2023, which is the date the consolidated financial statements were available to be issued.



**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following:

	2022	2021
Cash and cash equivalents	\$ 40,503,046	\$ 46,199,283
Certificates of deposit	-	255,051
Operating investments	20,995,470	13,979,138
Accounts receivable	59,929	85,828
Accounts receivable - related party	5,742	-
Promises to give	795,296	386,407
	\$ 62,359,483	\$ 60,905,707

**Note 3 - Fair Value Measurements and Disclosures**

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds or corporate bonds with readily determinable fair values based on daily redemption values. The fair value of the Foundation's beneficial interest in assets held by community foundation is based on the fair value of the underlying fund investments as reported by community foundation. These are considered to be Level 2 measurements. The fair value of beneficial interest in perpetual trust is determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustee. These are considered Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2022:

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments				
Fixed income funds-corporate bonds	\$ 16,574,236	\$ 16,574,345	\$ -	\$ -
Equity funds	4,421,234	4,421,125	-	-
	<u>\$ 20,995,470</u>	<u>\$ 20,995,470</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by Community Foundation	\$ 10,592	\$ -	\$ 10,592	\$ -
Beneficial interest in perpetual trust	902,342	-	-	902,342
	<u>\$ 912,934</u>	<u>\$ -</u>	<u>\$ 10,592</u>	<u>\$ 902,342</u>

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2021:

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments				
Fixed income funds-corporate bonds	\$ 12,027,394	\$ 12,027,394	\$ -	\$ -
Equity funds	1,951,744	1,951,744	-	-
	<u>\$ 13,979,138</u>	<u>\$ 13,979,138</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by Community Foundation	\$ 12,651	\$ -	\$ 12,651	\$ -
Beneficial interest in perpetual trust	1,011,962	-	-	1,011,962
	<u>\$ 1,024,613</u>	<u>\$ -</u>	<u>\$ 12,651</u>	<u>\$ 1,011,962</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2022 and 2021:

	Beneficial Interest in Perpetual Trust
Balance at January 1, 2021	\$ 983,767
Net realized and unrealized gain	28,195
Balance at December 31, 2021	<u>1,011,962</u>
Net realized and unrealized loss	<u>(109,620)</u>
Balance at December 31, 2022	<u>\$ 902,342</u>

#### Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected within one year at December 31, 2022 and 2021.

At December 31, 2022, one donor accounted for 58% of total promises to give and another donor accounted for 27% of total promises to give. At December 31, 2021, there were two donors who each accounted for 26% of total promises to give and another donor accounted for 34% of total promises to give.

**Note 5 - Property and Equipment**

Property and equipment consists of the following at December 31, 2022 and 2021:

	2022	2021
Land	\$ 1,068,223	\$ 1,068,223
Land improvements	1,191,893	1,068,917
Buildings and improvements	2,635,398	2,635,398
Office equipment	521,843	477,890
Furniture and fixtures	1,187,830	960,898
Construction in progress	11,190,851	1,247,393
	17,796,038	7,458,719
Less accumulated depreciation	(1,989,115)	(1,755,953)
	\$ 15,806,923	\$ 5,702,766

The Foundation began construction on a new headquarters building in 2020. Total costs expended during 2022 and 2021, were approximately \$5,155,900 and \$564,000, respectively. Total costs for the building are estimated to be approximately \$12,515,800, which includes in-kind donations of \$4,440,800. The Foundation has entered into agreements with certain vendors related to the construction of the new headquarters building and other facilities which has resulted in in-kind donations. The building is expected to be placed in service during 2023.

**Note 6 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Subject to Expenditure for Specified Purpose		
Restricted real estate	\$ 1,081,787	\$ 1,082,665
Restricted for scholarships	125,000	411,000
Time-based and primarily restricted for scholarships:		
Interest in net assets of chapters	6,137,088	4,972,470
	7,343,875	6,466,135
Subject to the Passage of Time		
Beneficial interest in perpetual trust	902,342	1,011,962
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	795,296	386,407
	\$ 9,041,513	\$ 7,864,504

Land was donated during the year ended December 31, 2009, for the express purpose of building the Foundation’s headquarters. The headquarters must be used for a nonprofit purpose for 20 years from the date of donation or the land will revert to the donor. Due to the nature of the restriction, the land and all assets constructed and affixed to it are reported as net assets restricted by donors.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Expiration of time restrictions	\$ 672,407	\$ 537,798
Restricted purpose distributions from chapters	17,108,809	14,466,212
Depreciation of restricted real estate	878	366
	\$ 17,782,094	\$ 15,004,376

## **Note 7 - Employee Benefits**

### **Defined Contribution Plan**

The Foundation sponsors a tax-deferred annuity plan (the Plan) qualified under Section 403(b) covering substantially all full-time employees. The plan provides that employees who have attained the age of 21 can voluntarily contribute a percentage of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the years ended December 31, 2022 and 2021, the Foundation contributed \$327,886 and \$241,635, respectively, to the plan.

### **Deferred Compensation Agreement**

The Foundation entered into a long-term incentive compensation arrangement with an executive of the Foundation. The executive has the opportunity to earn up to \$80,000 annually for five years, which rolls annually and includes a five-year vesting period. Included in accrued expenses and other liabilities on the consolidated statements of financial position are \$480,000 as of December 31, 2022 and 2021, respectively, related to this agreement.

**Note 8 - Related Party Transactions**

The Patriot Cup was not held during 2022, as such, there were no expenses incurred for the Patriot Cup fundraising event during 2022. For the year ended December 31, 2021, the Foundation paid expenses of \$133,489 for the Patriot Cup fundraising event to the Patriot Golf Course, an entity related through common management. Additionally, the Foundation and the Patriot Cottages paid the Patriot Golf Course approximately \$184,000 and 119,000 in 2022 and 2021, respectively, for security services, maintenance, grill, promotional materials, and certain other shared services.

The chief executive officer has an interest in the American Dunes LLC located in Grand Haven, Michigan. The mission of American Dunes is to raise awareness and funds to benefit Folds of Honor. American Dunes LLC received no funds for the construction of the golf course and receives no funds for operations. Folds of Honor was given permission to build a Folds of Honor Memorial at the entrance of American Dunes. The memorial was funded by restricted donations. The memorial utilized no general donations from Folds of Honor. Amounts spent for the construction in 2022 and 2021, totaled approximately \$81,000 and \$797,000, respectively, with the total expenditures for the construction to be approximately \$973,000. The memorial opened in May 2021 and construction was completed in 2022.

Due to extraordinary travel demands, the chief executive officer sometimes uses his personal single engine airplane for air travel required for Foundation business. The Foundation reimburses such travel based on IRS standard rates.