



Consolidated Financial Statements
December 31, 2017 and 2016

Folds of Honor Foundation

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses.....	5
Consolidated Statements of Cash Flow.....	7
Notes to Consolidated Financial Statements.....	8



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Folds of Honor Foundation, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and 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.

Management's Responsibility for the 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; 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 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 audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Folds of Honor Foundation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Tulsa, Oklahoma
August 1, 2018

Folds of Honor Foundation
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 10,331,020	\$ 4,791,344
Short-term investments	440,965	171,510
Accounts receivable, net	21,237	75,895
Promises to give, net	675,955	1,670,571
Prepaid expenses and other assets	310,369	111,404
Property and equipment, net	2,916,923	2,983,248
Interest in net assets of chapters	1,882,081	881,453
Beneficial interest in assets held by Community Foundation	1,139,424	1,265,733
	\$ 17,717,974	\$ 11,951,158
Liabilities and Net Assets		
Accounts payable	\$ 617,768	\$ 110,205
Accrued expenses and other liabilities	527,185	774,076
Deferred revenue	4,696	16,389
	1,149,649	900,670
Net Assets		
Unrestricted	12,826,081	7,343,105
Temporarily restricted	3,742,244	3,707,383
	16,568,325	11,050,488
	\$ 17,717,974	\$ 11,951,158

Folds of Honor Foundation
Consolidated Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue, Support, and Gains			
Contributions	\$ 3,763,601	\$ 645,955	\$ 4,409,556
In-kind contributions	135,297	-	135,297
Merchandise sales	189,593	-	189,593
Less cost of goods sold	(142,085)	-	(142,085)
	47,508	-	47,508
Gross special events revenue	18,063,204	-	18,063,204
Less cost of direct benefits to donors	(228,894)	-	(228,894)
	17,834,310	-	17,834,310
Net investment return	348,995	-	348,995
Other revenue	(16,118)	-	(16,118)
Change in interest in net assets of chapters	-	3,172,008	3,172,008
Distributions from and change in value of beneficial interests in assets held by others	(126,309)	-	(126,309)
Net assets released from restrictions	3,783,102	(3,783,102)	-
Total revenue, support, and gains	<u>25,770,386</u>	<u>34,861</u>	<u>25,805,247</u>
Expenses and Losses			
Program services expense	17,900,636	-	17,900,636
Supporting services expense			
Management and general	836,760	-	836,760
Fundraising and development	1,550,014	-	1,550,014
Total expenses	<u>20,287,410</u>	<u>-</u>	<u>20,287,410</u>
Change in Net Assets	<u>5,482,976</u>	<u>34,861</u>	<u>5,517,837</u>
Net Assets, Beginning of Year	<u>7,343,105</u>	<u>3,707,383</u>	<u>11,050,488</u>
Net Assets, End of Year	<u>\$ 12,826,081</u>	<u>\$ 3,742,244</u>	<u>\$ 16,568,325</u>

Folds of Honor Foundation
Consolidated Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, Support, and Gains			
Contributions	\$ 2,905,699	\$ 542,365	\$ 3,448,064
In-kind contributions	225,049	-	225,049
Merchandise sales	119,861	-	119,861
Less cost of goods sold	(97,102)	-	(97,102)
	22,759	-	22,759
Gross special events revenue	12,483,302	1,050,000	13,533,302
Less cost of direct benefits to donors	(112,750)	-	(112,750)
	12,370,552	1,050,000	13,420,552
Net investment return	(882,743)	-	(882,743)
Other income	567	-	567
Change in interest in net assets of chapters	-	2,363,864	2,363,864
Distributions from and change in value of beneficial interests in assets held by others	983,834	-	983,834
Net assets released from restrictions	2,330,046	(2,330,046)	-
Total revenue, support, and gains	17,955,763	1,626,183	19,581,946
Expenses and Losses			
Program services expense	11,536,830	-	11,536,830
Supporting services expense			
Management and general	713,373	-	713,373
Fundraising and development	1,643,331	-	1,643,331
Total expenses	13,893,534	-	13,893,534
Change in Net Assets	4,062,229	1,626,183	5,688,412
Net Assets, Beginning of Year	3,280,876	2,081,200	5,362,076
Net Assets, End of Year	\$ 7,343,105	\$ 3,707,383	\$ 11,050,488

Folds of Honor Foundation
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Service	Management and General	Fundraising and Development	Total
Scholarships and programs	\$ 14,260,047	\$ -	\$ -	\$ 14,260,047
Salaries and wages	2,032,780	406,556	271,037	2,710,373
Employee benefits	437,306	87,461	58,307	583,074
Payroll taxes	115,676	23,135	15,423	154,234
Professional services	94,484	92,777	20,807	208,068
Legal fees	13,106	4,033	3,024	20,163
Bank charges	-	52,673	52,673	105,346
Communications	44,374	3,218	21,002	68,594
Postage and printing	66,500	29,013	17,692	113,205
Occupancy	84,170	16,834	11,223	112,227
Security	5,580	930	2,790	9,300
Equipment rental and maintenance	29,380	7,395	4,930	41,705
Travel and training	104,666	-	156,999	261,665
Depreciation	71,417	42,850	28,567	142,834
Insurance	56,760	11,351	7,567	75,678
Receptions and events	-	-	783,904	783,904
Advertising	254,306	-	169,538	423,844
Cottage operating expenses	-	38,202	-	38,202
Information technology	64,649	19,892	14,919	99,460
Other	165,435	440	138,506	304,381
	17,900,636	836,760	1,778,908	20,516,304
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(228,894)	(228,894)
Total expenses included in the expense section on the statement of activities	\$ 17,900,636	\$ 836,760	\$ 1,550,014	\$ 20,287,410

Folds of Honor Foundation
Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Program Service	Management and General	Fundraising and Development	Total
Scholarships and programs	\$ 8,341,932	\$ -	\$ -	\$ 8,341,932
Salaries and wages	1,785,979	311,955	197,199	2,295,133
Employee benefits	336,965	61,254	39,374	437,593
Payroll taxes	119,565	23,913	15,942	159,420
Professional services	48,681	49,694	10,931	109,306
Legal fees	1,585	488	366	2,439
Bank charges	-	27,896	27,896	55,792
Communications	72,023	2,724	40,750	115,497
Postage and printing	36,993	13,357	7,566	57,916
Occupancy	65,813	13,163	8,775	87,751
Security	6,045	1,008	3,023	10,076
Equipment rental and maintenance	59,067	13,134	8,756	80,957
Travel and training	66,601	-	99,901	166,502
Depreciation	86,845	52,107	34,738	173,690
Insurance	39,524	7,905	5,270	52,699
Receptions and events	-	-	1,073,218	1,073,218
Advertising	132,209	-	88,139	220,348
Cottage operating expenses	-	6,451	-	6,451
Information technology	61,930	37,158	24,772	123,860
Other	275,073	91,166	69,465	435,704
	<u>11,536,830</u>	<u>713,373</u>	<u>1,756,081</u>	<u>14,006,284</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(112,750)	(112,750)
Total expenses included in the expense section on the statement of activities	<u>\$ 11,536,830</u>	<u>\$ 713,373</u>	<u>\$ 1,643,331</u>	<u>\$ 13,893,534</u>

Folds of Honor Foundation
Consolidated Statements of Cash Flow
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 5,517,837	\$ 5,688,412
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation a	142,834	173,690
Realized and unrealized loss on short-term investments	(66,978)	(11,789)
Change in interest net assets of chapters	(3,172,008)	(2,363,864)
Change in beneficial interests in assets held by others	142,616	(68,334)
Contributions of investments	-	(42,972)
Changes in operating assets and liabilities		
Accounts receivable	54,658	(50,085)
Promises to give	994,616	(1,535,998)
Prepaid expenses and inventories	(198,965)	(15,720)
Accounts payable and accrued expenses	260,672	(4,651,048)
Deferred revenue	(11,693)	(4,161)
	3,663,589	(2,881,869)
Net Cash from (used for) Operating Activities		
Cash Flows from Investing Activities		
Purchases of short-term investments	(202,477)	(9,446)
Additions to beneficial interests in assets held by others	(16,307)	(915,500)
Contributions received from chapters	2,171,380	2,222,043
Purchases of property and equipment	(76,509)	(116,318)
	1,876,087	1,180,779
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	5,539,676	(1,701,090)
Cash and Cash Equivalents, Beginning of Year	4,791,344	6,492,434
Cash and Cash Equivalents, End of Year	\$ 10,331,020	\$ 4,791,344

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 service men/women who are either killed or permanently disabled while serving and defending our great nation. As of December 31, 2017, the Foundation has awarded approximately 15,500 scholarships to help defray educational expenses, including tuition and fees, books, instructional supplies and equipment, and room and board. Through August 1, 2018, the Foundation has awarded approximately 20,000 scholarships.

Principals of Consolidation

The consolidated financial statements include the accounts of the Folds of Honor Foundation, FHF Honor Cottage, LLC (the 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 on consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “Folds of Honor Foundation”.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, 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, 2017 and 2016, no allowance was considered necessary.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded 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 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, 2017 and 2016, no allowance was considered necessary.

Property and Equipment

Property and equipment additions over \$1,000 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 three to thirty-nine years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement 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, 2017 and 2016.

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 statement of financial position, with trust distributions and changes in fair value recognized in the statement 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 eleven such chapters at December 31, 2017, and six additional chapters have been added subsequent to December 31, 2017. 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 statement of activities. Distributions received from the chapters are recorded as reductions in the interest in the net assets of chapters, and are generally used 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 chapters are reflected as temporarily restricted until the distributions are made to the Foundation.

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 statement of financial position. Net investment gain (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions restricted by donors as increases in unrestricted net assets 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 temporarily restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 are not recognized until the conditions on which they depend have been substantially met.

Advance payments for Cottage rental are recorded as deferred revenue when received.

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 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, 2017 and 2016, such costs approximated \$424,000 and \$220,000, respectively, including approximately \$0 and \$167,000, respectively, of donated advertising.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The 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.

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 as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and have been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The entity 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 entity 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 financial statements. The entity 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 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 FDIC insured financial institutions 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. 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 Investment 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 Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on the change in net assets or net assets.

Recent Accounting Guidance

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification, required disclosures on liquidity, and availability of resources; requires expanded disclosure about expenses and investment returns; and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

Subsequent Events

The Company has evaluated subsequent events through August 1, 2018, the date which the financial statements were available to be issued.

Note 2 - 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 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 3 measurements.

The following tables present assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2017 and 2016:

	Fair Value Measurements at December 31, 2017 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Short-term investments				
Equity funds	\$ 440,965	\$ 440,965	\$ -	\$ -
Beneficial interests in assets held by Community Foundation	\$ 1,139,424	\$ -	\$ -	\$ 1,139,424

	Fair Value Measurements at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Short-term investments				
Equity funds	\$ 171,510	\$ 171,510	\$ -	\$ -
Beneficial interests in Assets held by Community Foundation	\$ 1,265,733	\$ -	\$ -	\$ 1,265,733

Below 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 years ended December 31, 2017 and 2016:

	<u>Beneficial Interest in Assets Held by Community Foundation</u>
Balance at December 31, 2015	\$ 281,899
Purchases of investments	915,500
Net realized and unrealized gain (loss)	58,888
Interest and dividends	20,397
Investment management fees	<u>(10,951)</u>
Balance at December 31, 2016	<u>1,265,733</u>
Payments for scholarships	(280,345)
Net realized and unrealized gain (loss)	143,643
Interest and dividends	16,307
Investment management fees	<u>(5,914)</u>
Balance at December 31, 2017	<u><u>\$ 1,139,424</u></u>

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term investments		
Interest and dividends	\$ 16,307	\$ 20,397
Net realized and unrealized gain (loss)	338,602	(892,189)
Less investment management fees	<u>(5,914)</u>	<u>(10,951)</u>
	<u><u>\$ 348,995</u></u>	<u><u>\$ (882,743)</u></u>

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at December 31, 2017 and 2016:

	2017	2016
Within one year	\$ 655,955	\$ 1,610,571
In one to five years	20,000	60,000
	\$ 675,955	\$ 1,670,571

At December 31, 2017, no donor accounted for more than 10% of total promises to give. At December 31, 2016, one donor accounted for 52% of the total promises to give.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2017 and 2016:

	2017	2016
Land	\$ 390,000	\$ 390,000
Land improvements	176,236	176,236
Buildings and improvements	2,575,288	2,575,289
Office equipment	113,233	47,272
Furniture and fixtures	791,776	781,229
	4,046,533	3,970,026
Less accumulated depreciation	(1,129,610)	(986,778)
	\$ 2,916,923	\$ 2,983,248

Note 6 - Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, consist of:

	2017	2016
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	\$ 675,955	\$ 1,608,571
Other time-based, general purpose restrictions:		
Interest in net assets of chapters	1,882,081	881,453
Restricted real estate	1,176,250	1,207,323
Restricted for Honor cottage program	7,958	10,036
	\$ 3,742,244	\$ 3,707,383

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 temporarily restricted real estate.

Net assets were released from restrictions as follows during the years ended December 31, 2017 and 2016:

	2017	2016
Expiration of time restrictions	\$ 1,578,571	\$ 74,573
Distributions from chapters	2,171,380	2,222,043
Depreciation of restricted real estate	31,073	31,073
Release for Honor cottage program	2,078	2,357
	\$ 3,783,102	\$ 2,330,046

Note 7 - Donated Advertising and Materials

The Foundation received donated materials and advertising during the years ended December 31, 2017 and 2016 totaling \$0 and \$225,049, respectively. Donated advertising consists primarily of donated production and airing of television, radio, print, and web-based public service announcements.

Note 8 - Employee Benefits

Defined Contribution Plan

The Foundation sponsors a tax-deferred annuity plan (the Plan) qualified under Section 403(b) of the Internal Revenue Code 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, 2017 and 2016, the Foundation contributed \$126,907 and \$99,609, 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. The executive must be employed on December 31, 2019 to receive any of the bonus. There is \$240,000 and \$160,000 included in accrued expenses and other liabilities related to this agreement on the statements of financial position as of December 31, 2017 and 2016, respectively.

Note 9 - Related Party Transactions

During the years ended December 31, 2017 and 2016, the Foundation paid expenses for the Patriot Cup to the Patriot Golf Course, an entity related through common management, totaling \$85,000 each year. The Foundation also paid the Patriot Golf course \$50,775 and \$34,293 in 2017 and 2016, respectively, for security services, maintenance, grill, promotional materials, and certain other shared services. In addition, receivables at December 31, 2017 and 2016 include amounts owed by the Patriot Golf Course to the Foundation of \$19,955 and \$22,064, respectively, related to use of cottages owned by the Foundation.

The Foundation reimburses its Chief Executive Officer for use of his personal plane for Foundation business.

Note 10 - Subsequent Events

During 2018, the Foundation was named a beneficiary of a trust held and administered by an independent trustee. The Foundation expects to receive a distribution from the trust of approximately \$40,000 per year to be used for annual college scholarships for children of service men/women of the United States.