



Consolidated Financial Statements  
December 31, 2019 and 2018

# Folds of Honor Foundation

# Folds of Honor Foundation

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December 31, 2019 and 2018

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## 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, 2019 and 2018, 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, 2019 and 2018, 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.

*Eide Bailly LLP*

Tulsa, Oklahoma  
August 18, 2020

Folds of Honor Foundation  
Consolidated Statements of Financial Position  
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 32,308,928	\$ 23,348,774
Certificates of deposit	150,000	-
Operating investments	729,147	459,172
Accounts receivable, net	12,723	899
Promises to give, net	288,000	164,639
Prepaid expenses and other assets	127,446	159,215
Inventory	112,259	125,882
Property and equipment, net	3,602,878	2,841,926
Interest in net assets of chapters	2,861,788	1,385,510
Beneficial interest in assets held by community foundation	1,303,507	1,081,663
Total assets	\$ 41,496,676	\$ 29,567,680
Liabilities and Net Assets		
Accounts payable	\$ 284,016	\$ 264,090
Accrued expenses and other liabilities	6,016,912	5,001,220
Deferred revenue	36,857	19,476
Total liabilities	6,337,785	5,284,786
Net Assets		
Without donor restrictions		
Undesignated	30,737,499	21,586,988
With donor restrictions		
Purpose restrictions	4,318,392	2,681,268
Time-restricted for future periods	103,000	14,638
Total net assets	4,421,392	2,695,906
Total net assets	35,158,891	24,282,894
Total liabilities and net assets	\$ 41,496,676	\$ 29,567,680

Folds of Honor Foundation  
Consolidated Statement of Activities  
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Merchandise sales	\$ 476,580	\$ -	\$ 476,580
Less cost of goods sold	(245,338)	-	(245,338)
Net merchandise sales	231,242	-	231,242
Net investment return	569,241	-	569,241
Other revenue	42,002	-	42,002
Contributions	8,423,188	445,500	8,868,688
In-kind contributions	591,859	-	591,859
Gross special events revenue	17,988,684	-	17,988,684
Less cost of direct benefits to donors	(422,774)	-	(422,774)
Net special events revenue	17,565,910	-	17,565,910
Distributions from and change in value of beneficial interests in assets held by others	221,844	-	221,844
Change in interest in net assets of chapters	-	8,091,475	8,091,475
Net assets released from restrictions	6,811,489	(6,811,489)	-
Total revenue, support, and gains	34,456,775	1,725,486	36,182,261
Expenses and Losses			
Program services expense	22,205,157	-	22,205,157
Supporting services expense			
Management and general	1,250,703	-	1,250,703
Fundraising and development	1,850,404	-	1,850,404
Total supporting services expenses	3,101,107	-	3,101,107
Total expenses and losses	25,306,264	-	25,306,264
Change in Net Assets	9,150,511	1,725,486	10,875,997
Net Assets, Beginning of Year	21,586,988	2,695,906	24,282,894
Net Assets, End of Year	\$ 30,737,499	\$ 4,421,392	\$ 35,158,891

Folds of Honor Foundation  
Consolidated Statement of Activities  
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Merchandise sales	\$ 296,600	\$ -	\$ 296,600
Less cost of goods sold	(167,109)	-	(167,109)
Net merchandise sales	129,491	-	129,491
Net investment return	83,969	-	83,969
Other revenue	11,881	-	11,881
Contributions	6,864,637	154,638	7,019,275
In-kind contributions	173,409	-	173,409
Gross special events revenue	18,582,015	-	18,582,015
Less cost of direct benefits to donors	(446,901)	-	(446,901)
Net special events revenue	18,135,114	-	18,135,114
Distributions from and change in value of beneficial interests in assets held by others	(57,978)	-	(57,978)
Change in interest in net assets of chapters	-	6,477,838	6,477,838
Net assets released from restrictions	7,678,814	(7,678,814)	-
Total revenue, support, and gains	33,019,337	(1,046,338)	31,972,999
Expenses and Losses			
Program services expense	21,496,153	-	21,496,153
Supporting services expense			
Management and general	1,079,394	-	1,079,394
Fundraising and development	1,682,883	-	1,682,883
Total supporting services expenses	2,762,277	-	2,762,277
Total expenses and losses	24,258,430	-	24,258,430
Change in Net Assets	8,760,907	(1,046,338)	7,714,569
Net Assets, Beginning of Year	12,826,081	3,742,244	16,568,325
Net Assets, End of Year	\$ 21,586,988	\$ 2,695,906	\$ 24,282,894

Folds of Honor Foundation  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2019

	Program Services	Management and General	Fundraising and Development	Total
Scholarships	\$ 16,491,776	\$ -	\$ -	\$ 16,491,776
Salaries and wages	2,985,205	594,482	395,712	3,975,399
Employee benefits	690,375	122,334	77,808	890,517
Payroll taxes	241,047	28,359	14,179	283,585
Professional services	23,028	28,785	5,757	57,570
Legal fees	25,758	7,926	5,944	39,628
Bank charges	-	67,087	67,087	134,174
Communications	134,634	3,972	79,164	217,770
Postage and printing	123,033	49,021	28,923	200,977
Occupancy	104,388	20,878	13,918	139,184
Security	6,045	1,008	3,023	10,076
Equipment rental and maintenance	19,565	3,913	2,609	26,087
Travel and training	402,214	-	72,571	474,785
Depreciation and amortization	86,450	51,870	34,580	172,900
Insurance	75,703	15,141	10,094	100,938
Receptions and events	384,338	76,868	1,222,591	1,683,797
Advertising	124,838	-	83,225	208,063
Information technology	132,175	40,669	30,502	203,346
Promotional expense	58,502	35,101	23,401	117,004
Other	96,083	103,289	102,090	301,462
	<u>22,205,157</u>	<u>1,250,703</u>	<u>2,273,178</u>	<u>25,729,038</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(422,774)	(422,774)
	<u>-</u>	<u>-</u>	<u>(422,774)</u>	<u>(422,774)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 22,205,157</u>	<u>\$ 1,250,703</u>	<u>\$ 1,850,404</u>	<u>\$ 25,306,264</u>

Folds of Honor Foundation  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2018

	Program Services	Management and General	Fundraising and Development	Total
Scholarships	\$ 16,383,578	\$ -	\$ -	\$ 16,383,578
Salaries and wages	2,701,035	538,316	358,427	3,597,778
Employee benefits	649,139	117,237	75,160	841,536
Payroll taxes	202,207	23,789	11,895	237,891
Professional services	27,000	33,750	6,750	67,500
Legal fees	10,884	3,349	2,512	16,745
Bank charges	-	52,485	52,485	104,970
Communications	42,379	5,940	12,413	60,732
Postage and printing	107,528	36,023	19,698	163,249
Information technology	132,737	40,842	30,632	204,211
Occupancy	100,478	20,096	13,397	133,971
Travel and training	400,857	-	105,625	506,482
Security	5,223	871	2,612	8,706
Equipment rental and maintenance	17,492	3,498	2,332	23,322
Insurance	71,989	14,398	9,599	95,986
Receptions and events	229,093	45,819	1,129,722	1,404,634
Advertising	180,768	-	120,512	301,280
Depreciation and amortization	85,766	51,460	34,306	171,532
Promotional expense	72,140	43,284	28,856	144,280
Other	75,860	48,237	112,851	236,948
	<u>21,496,153</u>	<u>1,079,394</u>	<u>2,129,784</u>	<u>24,705,331</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(446,901)	(446,901)
Total expenses included in the expense section on the statement of activities	<u>\$ 21,496,153</u>	<u>\$ 1,079,394</u>	<u>\$ 1,682,883</u>	<u>\$ 24,258,430</u>

Folds of Honor Foundation  
Consolidated Statement of Cash Flow  
Year Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 10,875,997	\$ 7,714,569
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	172,899	171,532
Contributions of property and equipment	(477,300)	-
Loss on disposal of property and equipment	14,029	-
Realized and unrealized (gain) loss on operating investments	(173,766)	81,179
Change in beneficial interests in assets held by others	(193,275)	80,214
Change in interest in net assets of chapters	(8,091,475)	(6,477,838)
Accounts receivable, net	(11,824)	20,338
Promises to give, net	(123,361)	511,316
Inventories, net	13,623	(42,265)
Prepaid expenses and other assets	31,769	67,537
Accounts payable	19,926	(353,678)
Accrued expenses and other liabilities	1,015,692	4,474,035
Deferred revenue	17,381	14,780
	3,090,315	6,261,719
Net Cash from Operating Activities		
Investing Activities		
Purchases of operating investments	(96,209)	(99,386)
Purchases of certificates of deposit	(150,000)	-
Additions to beneficial interests in assets held by others	(28,569)	(22,453)
Purchases of property and equipment	(470,580)	(96,535)
Contributions received from chapters	6,615,197	6,974,409
	5,869,839	6,756,035
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	8,960,154	13,017,754
Cash and Cash Equivalents, Beginning of Year	23,348,774	10,331,020
Cash and Cash Equivalents, End of Year	\$ 32,308,928	\$ 23,348,774

## **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, 2019, the Foundation has awarded approximately 24,000 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 3,800 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 (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 in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the "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, 2019 and 2018, 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 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, 2019 and 2018, 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 resulting gain or loss is included in the consolidated 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, 2019 and 2018.

### **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, 2019 and 2018.

### **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 statement of financial position, with trust distributions and changes in fair value recognized in the consolidated 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 24 such chapters at December 31, 2019, and three additional chapters have been added subsequent to December 31, 2019. 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 statement 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 statement of financial position. Net investment return is reported in the consolidated 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 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 statement 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 met. Merchandise sales are generally recognized at the time of purchase.

Advance payments for Cottage rental 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, 2019 and 2018, such costs approximated \$208,000 and \$301,000, 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 as an organization described in 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 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 consolidated 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 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. 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 consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on the change in net assets or net assets.

### **Change in Accounting Principles**

As of January 1, 2018, the Foundation adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The provisions of the ASU replace the prior three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and introduces new disclosure requirements to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the consolidated statements of activities net of external and direct internal investment expenses. The ASU was applied on a retrospective basis.

As of January 1, 2019, the Foundation adopted the provisions of FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting. This update provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The majority of the Foundation's revenues are outside the scope of ASC 606. Revenues that fall within the scope of ASC 606 include merchandise sales, which are generally recognized at the time the related goods are transferred to the customer. The adoption of this standard had no impact on prior year amounts. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

### **Subsequent Events**

Subsequent events have been evaluated through August 18, 2020, 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 statement of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 32,301,428	\$ 23,348,774
Operating investments	729,147	459,172
Accounts receivable	12,723	899
Promises to give	288,000	14,639
	\$ 33,331,298	\$ 23,823,484

**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 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 following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2019:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets</u>				
Short-term investments				
Equity funds	<u>\$ 729,147</u>	<u>\$ 729,147</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by community foundation	<u>\$ 1,303,507</u>	<u>\$ -</u>	<u>\$ 1,303,507</u>	<u>\$ -</u>

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2018:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets</u>				
Short-term investments				
Equity funds	<u>\$ 459,172</u>	<u>\$ 459,172</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by community foundation	<u>\$ 1,081,663</u>	<u>\$ -</u>	<u>\$ 1,081,663</u>	<u>\$ -</u>

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at December 31, 2019 and 2018:

	2019	2018
Within one year	\$ 288,000	\$ 14,639
In one to five years	-	150,000
	\$ 288,000	\$ 164,639

At December 31, 2019, one donor accounted for more than 52% of total promises to give. At December 31, 2018, one donor accounted for more than 91% of the total promises to give.

**Note 5 - Property and Equipment**

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Land	\$ 1,068,223	\$ 390,000
Land improvements	176,236	176,236
Buildings and improvements	2,596,172	2,596,243
Office equipment	306,504	156,952
Furniture and fixtures	901,893	824,528
	5,049,028	4,143,959
Less accumulated depreciation	(1,446,150)	(1,302,033)
	\$ 3,602,878	\$ 2,841,926

During 2019, the Foundation received donations of 100 laptop computers valued at \$190,000, equipment valued at \$19,200, and land valued at \$268,100. These donated items were capitalized.

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

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

	2019	2018
Subject to Expenditure for Specified Purpose		
Restricted real estate	\$ 1,114,104	\$ 1,145,177
Restricted for Honor cottage program	-	581
Restricted for Scholarships	157,500	-
Promises to give, the proceeds from which have been restricted by donors for scholarships	185,000	150,000
Other time-based and primarily restricted for scholarships: Interest in net assets of chapters	2,861,788	1,385,510
	4,318,392	2,681,268
Subject to the Passage of Time		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	103,000	14,638
	\$ 4,421,392	\$ 2,695,906

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, 2019 and 2018:

	2019	2018
Expiration of time restrictions	\$ 164,638	\$ 665,955
Restricted purpose distributions from chapters	6,615,197	6,974,409
Depreciation of restricted real estate	31,073	31,073
Satisfaction of purpose restrictions		
Expenditures for Honor cottage program	581	7,377
	\$ 6,811,489	\$ 7,678,814

## **Note 7 - 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, 2019 and 2018, the Foundation contributed \$224,871 and \$179,867, 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, 2020, to receive any of the bonus. Included in accrued expenses and other liabilities on the consolidated statements of financial position are \$370,000 and \$290,000 as of December 31, 2019 and 2018, respectively, related to this agreement.

## **Note 8 - Related Party Transactions**

During the years ended December 31, 2019 and 2018, the Foundation paid expenses for the Patriot Cup fundraising event to the Patriot Golf Course, an entity related through common management, totaling \$85,000, respectively. The Foundation also paid the Patriot Golf course \$68,608 and \$86,485 in 2019 and 2018, respectively, for security services, maintenance, grill, promotional materials, and certain other shared services.

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.

## **Note 9 - Subsequent Events**

In January 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) as a “Public Health Emergency of International Concern.” The coronavirus outbreak and government responses are creating disruption in global supply chains and are adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes a prediction as to the ultimate material adverse impact of the coronavirus outbreak. The Foundation is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. Nevertheless, the outbreak presents uncertainty and risk with respect to the Foundation, its performance, and its financial results.

In April 2020, the Foundation applied for and was granted a \$860,000 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for six months to one year after the funding of the loan. The Foundation is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Foundation intends to take measures to maximize the loan forgiveness and the foundation believes that the loan that will ultimately be forgiven.