

EOD WARRIOR FOUNDATION

Bluemont, Virginia

FINANCIAL STATEMENTS

DECEMBER 31, 2018

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
EOD Warrior Foundation
Bluemont, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of EOD Warrior Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EOD Warrior Foundation as of December 31, 2018 and 2017, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 22, 2019

EOD WARRIOR FOUNDATION

Statements of Financial Position

December 31, 2018 and 2017

Assets	2018	2017
Current Assets		
Cash and cash equivalents	\$ 466,208	\$ 409,142
Pledges receivable, current portion	5,000	5,000
Prepaid expenses and other assets	19,961	32,227
Total current assets	<u>\$ 491,169</u>	<u>\$ 446,369</u>
Property and Equipment		
Equipment	\$ 9,857	\$ 15,955
Website	58,501	58,501
	<u>\$ 68,358</u>	<u>\$ 74,456</u>
Less accumulated depreciation	60,209	60,119
Total property and equipment, net	<u>\$ 8,149</u>	<u>\$ 14,337</u>
Other Assets		
Long-term pledges receivable, net of discount of \$18,595 for 2018 and \$19,436 for 2017	\$ 56,405	\$ 60,564
Investments	3,598,024	4,035,427
Total other assets	<u>\$ 3,654,429</u>	<u>\$ 4,095,991</u>
Total assets	<u>\$ 4,153,747</u>	<u>\$ 4,556,697</u>
Liabilities and Net Assets		
Current Liabilities , accounts payable and accrued expenses	<u>\$ 13,584</u>	<u>\$ 21,445</u>
Net Assets		
Without donor restrictions	\$ 4,078,758	\$ 4,439,688
With donor restrictions	61,405	95,564
Total net assets	<u>\$ 4,140,163</u>	<u>\$ 4,535,252</u>
Total liabilities and net assets	<u>\$ 4,153,747</u>	<u>\$ 4,556,697</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Statement of Activities

For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains (Losses) and Other Support			
Contributions	\$ 1,143,385	\$ 20,841	\$ 1,164,226
Fundraising activities, net of direct expenses of \$333,218	531,451	--	531,451
Royalty income	5,703	--	5,703
Investment return, net	(37,394)	--	(37,394)
Net assets released from restrictions	<u>55,000</u>	<u>(55,000)</u>	<u>--</u>
Total revenues, gains (losses) and other support	<u>\$ 1,698,145</u>	<u>\$ (34,159)</u>	<u>\$ 1,663,986</u>
Expenses			
Program services	\$ 1,695,092	\$ --	\$ 1,695,092
Management and general	103,613	--	103,613
Fundraising	<u>260,370</u>	<u>--</u>	<u>260,370</u>
Total expenses	<u>\$ 2,059,075</u>	<u>\$ --</u>	<u>\$ 2,059,075</u>
Change in net assets	\$ (360,930)	\$ (34,159)	\$ (395,089)
Net assets, beginning of year	<u>4,439,688</u>	<u>95,564</u>	<u>4,535,252</u>
Net assets, ending of year	<u>\$ 4,078,758</u>	<u>\$ 61,405</u>	<u>\$ 4,140,163</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Statement of Activities

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 685,117	\$ 32,238	\$ 717,355
Fundraising activities, net of direct expenses of \$233,535	630,112	--	630,112
Royalty income	6,362	--	6,362
Investment return, net	358,412	--	358,412
Net assets released from restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>--</u>
Total revenues, gains and other support	<u>\$ 1,690,003</u>	<u>\$ 22,238</u>	<u>\$ 1,712,241</u>
Expenses			
Program services	\$ 1,056,704	\$ --	\$ 1,056,704
Management and general	94,708	--	94,708
Fundraising	<u>211,905</u>	<u>--</u>	<u>211,905</u>
Total expenses	<u>\$ 1,363,317</u>	<u>\$ --</u>	<u>\$ 1,363,317</u>
Change in net assets	\$ 326,686	\$ 22,238	\$ 348,924
Net assets, beginning of year	<u>4,113,002</u>	<u>73,326</u>	<u>4,186,328</u>
Net assets, ending of year	<u>\$ 4,439,688</u>	<u>\$ 95,564</u>	<u>\$ 4,535,252</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Financial relief	\$ 390,405	\$ --	\$ --	\$ 390,405
Scholarships	229,305	--	--	229,305
Memorial	32,388	--	--	32,388
Hope and wellness	513,221	--	--	513,221
Payroll expenses	408,814	7,260	110,096	526,170
Payroll processing fees	2,523	45	679	3,247
Office supplies	3,387	60	71,818	75,265
Postage	4,383	3,689	421	8,493
Internet and telephone	7,797	59	888	8,744
Donor database	--	--	22,696	22,696
Bank service fees	--	948	19,784	20,732
Registration fees	--	25	1,686	1,711
Professional fees	--	66,338	8,146	74,484
Travel	33,781	6,772	5,550	46,103
Rent	21,728	386	5,851	27,965
Training	--	12,830	--	12,830
Insurance	36,664	651	9,874	47,189
401(k) fees and matching	5,888	105	1,586	7,579
Depreciation	4,808	85	1,295	6,188
Other	--	4,360	--	4,360
Total	<u>\$ 1,695,092</u>	<u>\$ 103,613</u>	<u>\$ 260,370</u>	<u>\$ 2,059,075</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Statement of Functional Expenses
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Financial relief	\$ 179,674	\$ --	\$ --	\$ 179,674
Scholarships	216,016	--	--	216,016
Memorial	51,840	--	--	51,840
Hope and wellness	169,648	--	--	169,648
Payroll expenses	330,597	11,406	85,987	427,990
Payroll processing fees	2,373	82	617	3,072
Office supplies	5,314	183	50,477	55,974
Postage	4,733	66	1,290	6,089
Internet and telephone	7,640	108	809	8,557
Donor database	--	11,348	11,348	22,696
Bank service fees	--	933	3,841	4,774
Registration fees	--	2,070	2,596	4,666
Professional fees	20,802	50,241	28,533	99,576
Travel	2,423	10,922	10,605	23,950
Rent	21,601	745	5,619	27,965
Utilities	1,042	36	271	1,349
Training	--	3,197	--	3,197
Insurance	24,162	834	6,284	31,280
401(k) fees and matching	4,536	157	1,180	5,873
Depreciation	9,413	325	2,448	12,186
Other	4,890	2,055	--	6,945
Total	<u>\$ 1,056,704</u>	<u>\$ 94,708</u>	<u>\$ 211,905</u>	<u>\$ 1,363,317</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (395,089)	\$ 348,924
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	6,188	12,186
Realized and unrealized investment loss (gain)	81,687	(293,738)
Decrease in pledges receivable	4,159	2,762
Decrease in prepaid expenses and other assets	12,266	34,684
(Decrease) increase in accounts payable and accrued expenses	<u>(7,861)</u>	<u>1,303</u>
Net cash (used in) provided by operating activities	<u>\$ (298,650)</u>	<u>\$ 106,121</u>
 Cash Flows from Investing Activities		
Purchase of property and equipment	\$ --	\$ (8,335)
Proceeds from sale of investments	3,615,938	417,319
Purchase of investments	<u>(3,260,222)</u>	<u>(481,987)</u>
Net cash provided by (used in) investing activities	<u>\$ 355,716</u>	<u>\$ (73,003)</u>
 Increase in cash and cash equivalents	\$ 57,066	\$ 33,118
 Cash and Cash Equivalents		
Beginning	<u>409,142</u>	<u>376,024</u>
 Ending	<u>\$ 466,208</u>	<u>\$ 409,142</u>

See Notes to Financial Statements.

EOD WARRIOR FOUNDATION

Notes to Financial Statements

Note 1. Description of the Organization

EOD Warrior Foundation (the “Foundation”) is committed to providing funds and support to military service members, veterans, state and local government employees, and civilian employees wounded in the course of performing explosive ordinance disposal (EOD) activities. The Foundation serves the EOD community by providing financial assistance and support to active duty and veteran wounded, injured, or ill EOD warriors, families of the wounded and fallen EOD warriors, and by maintaining the EOD memorial. The Foundation is supported primarily by fundraisers and the generosity of donors.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Net assets, revenues, and expenses are classified based on the terms of donor-imposed restrictions, if any. Accordingly, the net assets, revenues, and expenses of the Foundation are classified and reported as follows:

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

Net Assets With Donor Restrictions – Net assets subject to donor-imposed 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

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

Notes to Financial Statements

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Balances in these accounts may, at times, exceed federally insured limits. The Foundation has not experienced any loss in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Pledges Receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied anticipated cash flow. Amortization of the resultant discount is recognized as contribution revenue. The need for an allowance of uncollectible pledges receivable is determined based on an evaluation of collectability of individual promises. All pledges are considered fully collectible at December 31, 2018 and 2017, respectively. Accordingly, no allowance for doubtful pledges receivable has been recorded.

Investments

Investments are recorded at fair market value in the statement of financial position. Any realized and unrealized gains and losses are reflected in the statement of activities.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the assets' useful lives as follows:

Equipment	3 - 30 years
Website	3 years

Contributions

Contributions are recognized when the donor makes a promise to give to the Foundation. Gifts of cash and other assets received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a time or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Contributions with donor-imposed restrictions that are satisfied within the same reporting period as received are reported as net assets without donor restrictions.

Notes to Financial Statements

Donated Services

Donated services that create or enhance non-financial assets or that require specialized skills and would have been purchased if not provided by individuals possessing those skills are recorded in the statement of activities at their fair value. Other donated services received that do not meet these criteria are not recorded in the financial statements.

Allocation Methodology for the Statement of Functional Expenses

The cost of providing the various programs and activities has been summarized in the statement of functional expenses. Certain costs have been allocated among program, management and general, and fundraising. Such allocations have been made by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method</u>
Financial relief	Direct costs
Scholarships	Direct costs
Memorial	Direct costs
Hope and wellness	Direct costs
Payroll expenses	Time and effort
Payroll processing fees	Time and effort
Office supplies and expenses	Direct costs and time and effort
Postage	Direct costs
Internet and telephone	Direct costs and time and effort
Donor database	Direct costs
Bank service fees	Direct costs
Registration fees	Direct costs
Professional fees	Direct costs
Travel	Direct costs
Rent	Time and effort
Training	Direct costs
Insurance	Time and effort
401(k) fees and matching	Time and effort
Depreciation	Time and effort
Other	Direct costs

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code 501(c)(3) and has been determined not to be a private foundation under Code Section 509(a). The Foundation will only be taxed to the extent it has taxable trade or business income unrelated to its exempt purpose.

Notes to Financial Statements

New Accounting Pronouncements

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statement for Not-for-Profit Entities. The Foundation adopted the provisions of this new standard in the current year. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources (Note 3) as well as the allocation methodology for the schedule of functional expenses (Note 2). Adoption of this standard had no effect on the change in net assets or in total.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Generally, the ASU states that revenue should be recognized by following a five step process which include identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract, and recognizing revenue as the entity satisfies a performance obligation. ASU 2014-09 is effective for the Foundation for the year ending December 31, 2019. The Foundation is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Foundation for the year ending December 31, 2020. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assists entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with Customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by the Foundation for its year ended December 31, 2019. ASU 2018-08 is effective for contributions made, if applicable, by the Foundation for its year ending December 31, 2020. Early adoption is permitted. The Foundation is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

Notes to Financial Statements

Note 3. Liquidity and Availability

The Foundation has \$4,069,232 and \$4,419,569 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures as of December 31, 2018 and 2017, respectively. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

	2018	2017
Financial assets, at year-end:		
Cash and cash equivalents	\$ 466,208	\$ 409,142
Pledges receivable	61,405	65,564
Investments	3,598,024	4,035,427
Total financial assets	\$ 4,125,637	\$ 4,510,133
Less amounts not available to be used within one year:		
Restricted by donors for purpose	\$ --	\$ 30,000
Restricted by donors for time	56,405	60,564
	\$ 56,405	\$ 90,564
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,069,232	\$ 4,419,569

Note 4. Pledges Receivable

The outstanding pledges receivable are due as follows:

	2018	2017
Within one year	\$ 5,000	\$ 5,000
One to five years	25,000	25,000
Over five years	50,000	55,000
	\$ 80,000	\$ 85,000
Less present value discount (2.76% - 3.79%)	(18,595)	(19,436)
	\$ 61,405	\$ 65,564

Note 5. Related Party Transactions

The Foundation receives contributions from members of the Board of Directors and certain businesses owned by and/or employing members of the Board of Directors. During 2015, Ken Falke, Chairman of the Board, made a pledge of \$100,000, payable in \$5,000 increments over the next 20 years. The final payment is expected to be paid in April 2034. The Foundation has a shared employee with related organizations of Boulder Crest Retreat Foundation and Shoulder2Shoulder, Inc. whereas Ken Falke, Founder and Chairman of the Foundation, is the Founder and Chairman and shareholder, respectively. Effective December 2017, he is no longer a shareholder of Shoulder2Shoulder, Inc. Effective December 2018, the Foundation no longer has a shared employee with Shoulder2Shoulder, Inc.

Notes to Financial Statements

Note 6. Investments

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are briefly described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair values of all of the marketable securities as of December 31, 2018 and 2017 are based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs.)

The following table presents the balance of financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Cash	\$ 33,349	\$ --	\$ --	\$ 33,349
Mutual Funds	514,329	--	--	514,329
Equities	3,050,346	--	--	3,050,346
	\$ 3,598,024	\$ --	\$ --	\$ 3,598,024
	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash	\$ 6,384	\$ --	\$ --	\$ 6,384
Mutual Funds	3,328,952	--	--	3,328,952
Equities	700,091	--	--	700,091
	\$ 4,035,427	\$ --	\$ --	\$ 4,035,427

Notes to Financial Statements

Note 7. Investments

As of December 31, 2017, the cost basis of the investment portfolio was not readily determinable. Investments as of December 31, 2018, were as follows:

	Cost	Market Value	Unrealized Appreciation (Depreciation)
Cash	\$ 33,349	\$ 33,349	\$ --
Mutual Funds	456,686	514,329	57,643
Equities	3,054,139	3,050,346	(3,793)
Total	\$ 3,544,174	\$ 3,598,024	\$ 53,850

Note 8. Investment Return, Net

Investment return, net consisted of the following for the year ended December 31, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 56,000	\$ 80,289
Net realized and unrealized (loss) gain	(81,687)	293,738
Investment fees	(11,707)	(15,615)
	\$ (37,394)	\$ 358,412

Note 9. Operating Lease Commitment

In January 2016, the Foundation entered into a lease agreement for office space that calls for monthly payments of \$2,330 through January 2019. In December 2018, the lease was extended through January 2020. Total rent expense was \$27,965 for the years ended December 31, 2018 and 2017. Future minimum lease payments as of December 31, 2018 are due in future years as follows:

Year	Amount
2019	\$ 27,965
2020	2,330
	\$ 30,295

Notes to Financial Statements

Note 10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ --	\$ 30,000
Time restriction	<u>61,405</u>	<u>65,564</u>
	<u>\$ 61,405</u>	<u>\$ 95,564</u>

Net assets were released from donor restrictions for the years ended December 31, 2018 and 2017 by incurring expenses satisfying the purpose specified by the donor or through the passage of time as follows:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 50,000	\$ --
Retreats	--	5,000
Time restriction	<u>5,000</u>	<u>5,000</u>
	<u>\$ 55,000</u>	<u>\$ 10,000</u>

Note 11. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 22, 2019, the date the financial statements were available to be issued. The Foundation has determined there are no subsequent events that require recognition or disclosure.