

EOD WARRIOR FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014



ASSURANCE, TAX & ADVISORY SERVICES

EOD WARRIOR FOUNDATION

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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 statements of financial position of EOD Warrior Foundation (the Foundation) as of December 31, 2014 and 2013, and 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Foundation'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 Foundation'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, 2014 and 2013 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.

PBMares, LLP

Fredericksburg, Virginia
April 4, 2015

EOD WARRIOR FOUNDATION

STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 489,330	\$ 553,265
Prepaid expenses and other assets	78,004	117,786
Total current assets	567,334	671,051
Equipment, net of accumulated depreciation 2014 \$22,996; 2013 \$9,995	43,125	56,126
Investments	3,166,156	2,684,625
	\$ 3,776,615	\$ 3,411,802
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 46,897	\$ 21,678
Net Assets		
Unrestricted	3,699,718	3,390,124
Temporarily restricted net assets	30,000	-
Total liabilities and net assets	\$ 3,776,615	\$ 3,411,802

EOD WARRIOR FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2014 and 2013

	2014			2013
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	Total
Support and Revenue				
Contributions	\$ 843,916	\$ -	\$ 843,916	\$ 2,226,099
Fundraising activities, net of direct expenses of 2014 \$181,591; 2013 \$292,184	585,975	-	585,975	97,502
Grants	-	30,000	30,000	-
Realized and unrealized gains	49,189	-	49,189	55,307
Dividend income	85,019	-	85,019	71,709
Interest income	150	-	150	210
Total support and revenue	1,564,249	30,000	1,594,249	2,450,827
Expenses				
Program services	825,226	-	825,226	620,079
Management and general	116,130	-	116,130	140,917
Fundraising	313,299	-	313,299	228,833
Total expenses	1,254,655	-	1,254,655	989,829
Change in net assets	309,594	30,000	339,594	1,460,998
Net Assets, beginning	3,390,124	-	3,390,124	1,929,126
Net Assets, ending	\$ 3,699,718	\$ 30,000	\$ 3,729,718	\$ 3,390,124

EOD WARRIOR FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2014 and 2013

	2014			
	Program Services	Management and General	Fund- raising	Total
Grants	\$ 24,000	\$ -	\$ -	\$ 24,000
Specific assistance	418,038	-	-	418,038
Scholarships	140,000	-	-	140,000
Memorial ceremony	33,016	-	-	33,016
Memorial wall care	7,572	-	-	7,572
Fundraising supplies	-	-	138,806	138,806
Payroll expenses	166,485	37,841	97,324	301,650
Payroll processing fees	1,347	306	788	2,441
Office supplies and expenses	4,858	1,104	2,840	8,802
Postage	2,758	567	1,896	5,221
Telephone and internet	5,403	2,353	3,158	10,914
Donor database	-	-	18,758	18,758
Advertising	-	-	-	-
Bank service fees	-	149	11,104	11,253
Registration fees	-	200	2,655	2,855
Professional fees	-	41,124	11,409	52,533
Travel	4,096	4,914	14,241	23,251
Occupancy	3,311	753	1,936	6,000
Training	-	2,746	-	2,746
Insurance	6,221	3,533	3,636	13,390
401(k) fees	946	215	553	1,714
Depreciation	7,175	1,631	4,195	13,001
Investment fees	-	12,683	-	12,683
Other	-	6,011	-	6,011
Total	\$ 825,226	\$ 116,130	\$ 313,299	\$ 1,254,655

See Notes to Financial Statements.

2013

Program Services	Management and General	Fund-raising	Total
\$ 60,000	\$ -	\$ -	\$ 60,000
307,199	-	-	307,199
95,000	-	-	95,000
22,014	-	-	22,014
5,901	-	-	5,901
-	-	35,862	35,862
98,654	29,381	45,179	173,214
778	232	356	1,366
6,527	8,453	2,989	17,969
4,717	1,279	2,113	8,109
1,595	475	730	2,800
-	2,011	2,011	4,022
-	-	51,677	51,677
-	956	4,146	5,102
-	175	4,350	4,525
-	69,229	70,868	140,097
9,206	13,201	4,663	27,070
3,417	1,018	1,565	6,000
-	3,054	-	3,054
958	1,608	440	3,006
-	-	-	-
4,113	1,225	1,884	7,222
-	6,239	-	6,239
-	2,381	-	2,381
<u>\$ 620,079</u>	<u>\$ 140,917</u>	<u>\$ 228,833</u>	<u>\$ 989,829</u>

EOD WARRIOR FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 339,594	\$ 1,460,998
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	13,001	7,222
Realized and unrealized investment gains	(49,189)	(55,307)
(Increase) decrease in:		
Due from related party	-	968
Accounts receivable	-	1,236
Prepaid expenses and other assets	39,782	(98,814)
Increase (decrease) in:		
Accounts payable	25,219	8,397
Other liabilities	-	(2,184)
Net cash provided by operating activities	368,407	1,322,516
Cash Flows From Investing Activities		
Purchase of fixed assets	-	(60,023)
Purchase of investments	(432,342)	(915,440)
Net cash used in investing activities	(432,342)	(975,463)
Increase (decrease) in cash and cash equivalents	(63,935)	347,053
Cash and Cash Equivalents		
Beginning	553,265	206,212
Ending	\$ 489,330	\$ 553,265

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Foundation and Significant Accounting Policies

EOD Warrior Foundation (the Foundation), formerly Wounded EOD Warrior 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 ordnance 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 donations.

Significant accounting policies followed by the Foundation are described below:

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:

Unrestricted net assets - Unrestricted net assets are not subject to donor imposed restrictions and generally result from revenues derived from providing services, receiving unrestricted contributions, realized gains and losses, and receiving dividends and interest from investing in income-producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily restricted net assets - Temporarily restricted net assets generally result from contributions whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be satisfied by actions of the Foundation pursuant to those stipulations.

Support and revenue recognition: Contributions are recognized as revenue when they are received or unconditionally pledged.

The Foundation reports gifts of cash and other assets as unrestricted support, unless they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents: For purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be 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.

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Foundation and Significant Accounting Policies (Continued)

Investments: Investments consist of mutual funds and equities reported at fair value in the statements of financial position (see Note 3). Investment income (including gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

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.

Functional allocation of expenses: Directly identifiable expenses are charged to programs, supporting services, and fundraising. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

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).

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of current guidance. The Foundation files income tax returns in the U.S. federal jurisdiction. The Foundation's income tax returns for the years 2011 and beyond remain subject to examination by the Internal Revenue Service.

Advertising: The Foundation follows a policy of charging the costs of advertising to expense as incurred. Advertising expense amounted to \$- and \$51,677 for the years ended December 31, 2014 and 2013, respectively.

Subsequent events: Subsequent events have been evaluated through April 4, 2015, which was the date the financial statements were available to be issued.

Note 2. Related Party Transactions

During 2014 and 2013, the Foundation contracted to receive services including shared office space, general administrative functions, accounting functions, and advisory services from Shoulder2Shoulder, Inc. These services, valued at \$31,598 and \$36,928 for the years ended December 31, 2014 and 2013, respectively, were donated by Shoulder2Shoulder, Inc. to the Foundation. These donations represent approximately 86% and 78% of the non-cash support, excluding auction items, received for the years ended December 31, 2014 and 2013, respectively. Ken Falke, Chairman and prior acting Executive Director of the Foundation, is a shareholder of Shoulder2Shoulder, Inc.

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2. Related Party Transactions (Continued)

During 2013, the Foundation entered into a trademark licensing agreement with Wear the Force, LLC, an entity owned by a family member of Ken Falke, Chairman of the Board. The agreement calls for 5% of net profits to be paid to the Foundation related to sales of promotional items with the Foundation's trademarked logo. The Foundation did not report any income related to this contract in 2013; however, Wear the Force, LLC fulfilled its obligations under the agreement and remitted 5% of net profits in 2014. The Foundation received \$1,000 during 2014 related to this agreement. The Foundation purchased \$49,520 and \$59,221 worth of outreach and marketing clothing from Wear the Force, LLC during 2014 and 2013, respectively.

Note 3. Fair Value Measurements

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a framework for measuring fair value. That framework provides 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 under FASB Codification are described below:

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- **Level 2** – Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds and equities: Valued at the net asset value of shares held by the Foundation at year end based on the quoted market value of the underlying assets.

The methods described on the previous page may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Assets				
Mutual Funds:				
Intermediate duration	\$ 283,448	\$ -	\$ -	\$ 283,448
Bond inflation strategy	471,293	-	-	471,293
Global fixed income	567,615	-	-	567,615
International	190,156	-	-	190,156
Emerging markets	25,379	-	-	25,379
Real asset strategy	126,487	-	-	126,487
Dynamic asset allocation	951,512	-	-	951,512
Equities:				
Strategic equities	543,372	-	-	543,372
Equities	929	-	-	929
Cash	5,965	-	-	5,965
	<u>\$ 3,166,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,166,156</u>

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Assets				
Mutual Funds:				
Intermediate duration	\$ 238,484	\$ -	\$ -	\$ 238,484
Bond inflation strategy	393,921	-	-	393,921
Global fixed income	477,963	-	-	477,963
International	165,740	-	-	165,740
Emerging markets	25,174	-	-	25,174
Real estate strategy	107,710	-	-	107,710
Dynamic asset allocation	806,128	-	-	806,128
Equities:				
Strategic equities	444,859	-	-	444,859
Equities	1,101	-	-	1,101
Cash	23,545	-	-	23,545
	<u>\$ 2,684,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,684,625</u>

Note 4. Asset Assignment

Effective March 1, 2013, EOD Memorial Foundation, Inc., a Florida not-for-profit corporation, assigned substantially all of its assets to the Foundation. The Foundation did not pay any consideration for these assets, but instead, assumed all rights, title, and interest in the assigned assets, free and clear of all liens, and assumed and agreed to pay, perform, and discharge all obligations and liabilities of the assigned assets arising after the effective date, though no such liabilities were identified as of the transaction date. Following is a summary of assets assigned, all of which were recorded at estimated fair value on the date of transfer:

Cash and cash equivalents	\$ 878,394
Certificate of deposit	50,855
Marketable securities	1,064
Prepaid and other assets	<u>19,559</u>
	<u>\$ 949,872</u>

Note 5. Temporarily Restricted Net Assets

The Foundation received a donation of \$30,000 during 2014, which was restricted by the donor to fund therapeutic retreats and morale events during 2015. The donor imposed restriction is expected to be satisfied in early 2015. No temporarily restricted net assets existed at December 31, 2013.