

EOD WARRIOR FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016



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, 2016 and 2015, 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 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 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, 2016 and 2015 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PBMares, LLP

Fredericksburg, Virginia
April 17, 2017

FINANCIAL STATEMENTS

EOD WARRIOR FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 376,024	\$ 504,384
Pledges receivable, current portion	5,000	5,000
Inventory	-	26,544
Prepaid expenses and other assets	66,911	234,991
Total current assets	447,935	770,919
Equipment, net of accumulated depreciation 2016 \$47,933; 2015 \$35,685	18,188	30,436
Other Assets		
Long-term pledges receivable	63,326	66,790
Investments	3,677,021	3,486,524
	3,740,347	3,553,314
	\$ 4,206,470	\$ 4,354,669
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 20,142	\$ 204,200
Net Assets		
Unrestricted	4,113,002	4,071,179
Temporarily restricted net assets	73,326	79,290
	4,186,328	4,150,469
Total liabilities and net assets	\$ 4,206,470	\$ 4,354,669

EOD WARRIOR FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2016 and 2015

	2016			2015
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	Total
Support and Revenue				
Contributions	\$ 660,162	\$ 6,536	\$ 666,698	\$ 900,587
Fundraising activities, net of direct expenses of 2016 \$176,293; 2015 \$269,575	810,895	-	810,895	721,201
Royalty income	654	-	654	-
Realized and unrealized gains (losses)	126,095	-	126,095	(70,837)
Dividend income	79,405	-	79,405	53,620
Interest income	49	-	49	137
Net assets released from restrictions	12,500	(12,500)	-	-
Total support and revenue	1,689,760	(5,964)	1,683,796	1,604,708
Expenses				
Program services	1,233,874	-	1,233,874	872,939
Management and general	142,629	-	142,629	138,658
Fundraising	271,434	-	271,434	172,360
Total expenses	1,647,937	-	1,647,937	1,183,957
Change in net assets	41,823	(5,964)	35,859	420,751
Net Assets, beginning	4,071,179	79,290	4,150,469	3,729,718
Net Assets, ending	\$ 4,113,002	\$ 73,326	\$ 4,186,328	\$ 4,150,469

EOD WARRIOR FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016**

	Program Services	Management and General	Fund- raising	Total
Grants	\$ 9,000	\$ -	\$ -	\$ 9,000
Specific assistance	586,052	-	-	586,052
Scholarships	202,217	-	-	202,217
Memorial ceremony	30,473	-	-	30,473
Memorial wall care	8,656	-	-	8,656
Payroll expenses	287,933	21,571	59,400	368,904
Payroll processing fees	2,241	168	462	2,871
Office supplies and expenses	10,957	821	62,382	74,160
Postage	11,241	398	7,422	19,061
Telephone and internet	6,416	144	395	6,955
Donor database	-	11,065	11,065	22,130
Bank service fees	-	1,299	21,108	22,407
Registration fees	-	2,200	2,570	4,770
Professional fees	17,654	58,981	24,845	101,480
Food and beverages	-	-	4,309	4,309
Supplies	-	-	25,017	25,017
Travel	2,987	17,719	20,111	40,817
Rent	20,712	1,552	4,273	26,537
Utilities	2,283	171	471	2,925
Training	-	365	-	365
Insurance	16,152	5,153	3,332	24,637
401(k) fees and matching	4,524	339	933	5,796
Depreciation	9,560	716	1,972	12,248
Investment fees	-	15,025	-	15,025
Other	4,816	4,942	21,367	31,125
Total	\$ 1,233,874	\$ 142,629	\$ 271,434	\$ 1,647,937

EOD WARRIOR FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2015

	Program Services	Management and General	Fund- raising	Total
Grants	\$ 3,000	\$ -	\$ -	\$ 3,000
Specific assistance	359,964	-	-	359,964
Scholarships	172,098	-	-	172,098
Memorial ceremony	30,573	-	-	30,573
Memorial wall care	10,541	-	-	10,541
Payroll expenses	250,137	32,994	53,659	336,790
Payroll processing fees	1,882	248	404	2,534
Office supplies and expenses	3,645	481	13,309	17,435
Postage	6,821	528	44,932	52,281
Telephone and internet	3,363	4,944	721	9,028
Donor database	-	-	25,124	25,124
Bank service fees	-	862	13,488	14,350
Registration fees	-	2,765	2,745	5,510
Professional fees	-	39,794	7,405	47,199
Travel	1,625	13,396	4,290	19,311
Occupancy	4,531	598	972	6,101
Training	-	12,438	-	12,438
Insurance	10,102	3,744	2,167	16,013
401(k) fees	5,233	690	1,122	7,045
Depreciation	9,424	1,243	2,022	12,689
Investment fees	-	14,434	-	14,434
Other	-	9,499	-	9,499
Total	\$ 872,939	\$ 138,658	\$ 172,360	\$ 1,183,957

EOD WARRIOR FOUNDATION

STATEMENTS OF CASH FLOWS Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 35,859	\$ 420,751
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	12,248	12,689
Realized and unrealized investment losses (gains)	(126,095)	70,837
(Increase) decrease in:		
Pledges receivable	3,464	(71,790)
Inventory	26,544	(26,544)
Prepaid expenses and other assets	168,080	(156,987)
(Decrease) increase in accounts payable	(184,058)	157,303
Net cash provided by (used in) operating activities	(63,958)	406,259
Cash Flows From Investing Activities		
Purchase of investments	(64,402)	(391,205)
Net cash used in investing activities	(64,402)	(391,205)
Increase (decrease) in cash and cash equivalents	(128,360)	15,054
Cash and Cash Equivalents		
Beginning	504,384	489,330
Ending	\$ 376,024	\$ 504,384

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Foundation and Significant Accounting Policies

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 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 statements 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)

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 to anticipated cash flow. Amortization of the resultant discount is recognized as contribution revenue. The need for an allowance for uncollectible pledges receivable is determined based on an evaluation of the collectability of individual promises. All pledges were considered fully collectible at December 31, 2016; accordingly, no allowance for doubtful pledges receivable was recorded.

Investments: Investments consist of mutual funds and equities reported at fair value in the statements of financial position (see Note 4). Investment income (including gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets.

Inventory: Inventory consisted of clothing and accessories with the Foundation's logo and was stated at the lower of cost (determined on the average cost method) or market (net realizable value). As of December 31, 2016, the Foundation is no longer selling clothing and accessories.

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. Other costs have been allocated among the programs and supporting services benefited.

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 2013 and beyond remain subject to examination by the Internal Revenue Service.

Subsequent events: Subsequent events have been evaluated through April 17, 2017, which was the date the financial statements were available to be issued.

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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

Recent accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact this new standard will have on its financial statements.

Note 2. Pledges Receivable

Pledges receivable at December 31, 2016 and 2015 are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 5,000	\$ 5,000
Between one and eighteen years	<u>85,000</u>	<u>90,000</u>
	90,000	95,000
Less present value discount (1.65% - 3.47%)	<u>(21,674)</u>	<u>(23,210)</u>
	\$ 68,326	\$ 71,790

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 3. Related Party Transactions

During 2015, 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 \$29,480 for the year ended December 31, 2015, were donated by Shoulder2Shoulder, Inc. to the Foundation. These donations represent approximately 86% of the non-cash support, excluding auction items, received for the year ended December 31, 2015. Ken Falke, Chairman and prior acting Executive Director of the Foundation, is a shareholder of Shoulder2Shoulder, Inc. The contracted services were discontinued in 2016.

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 \$67,458 and \$49,520 worth of outreach and marketing clothing from Wear the Force, LLC during 2015 and 2014, respectively. During 2015, Wear the Force, LLC discontinued its operations and sold its remaining inventory to the Foundation, at which time The Foundation began selling the promotional items on its own behalf. Effective December 31, 2016, the Foundation is no longer selling promotional items.

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. This is the only pledge recorded by the Foundation, the details of which are shown in Note 2. In addition to his scheduled pledge payment of \$5,000 during the year ended December 31, 2016, Ken Falke also made \$18,133 and \$30,000 contributions to the Foundation during 2016 and 2015, respectively.

Note 4. 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 the 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.

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

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.

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 valuation methods used 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, 2016:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Assets				
Mutual Funds:				
Intermediate duration	\$ 329,907	\$ -	\$ -	\$ 329,907
Bond inflation strategy	550,108	-	-	550,108
Global fixed income	657,959	-	-	657,959
International	218,476	-	-	218,476
Emerging markets	37,987	-	-	37,987
Real asset strategy	147,191	-	-	147,191
Dynamic asset allocation	1,089,594	-	-	1,089,594
Equities:				
Strategic equities	641,739	-	-	641,739
Cash	4,060	-	-	4,060
	<u>\$ 3,677,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,677,021</u>

EOD WARRIOR FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4. 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, 2015:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Assets				
Mutual Funds:				
Intermediate duration	\$ 312,946	\$ -	\$ -	\$ 312,946
Bond inflation strategy	523,041	-	-	523,041
Global fixed income	627,001	-	-	627,001
International	210,082	-	-	210,082
Emerging markets	34,403	-	-	34,403
Real asset strategy	140,346	-	-	140,346
Dynamic asset allocation	1,043,541	-	-	1,043,541
Equities:				
Strategic equities	577,316	-	-	577,316
Equities	1,032	-	-	1,032
Cash	16,816	-	-	16,816
	<u>\$ 3,486,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,486,524</u>

Note 5. Operating Lease Commitment

In January 2016, the Organization entered into a lease agreement for office space that calls for monthly payments of \$2,330 through January 2018. Total rent expense during 2016 was \$26,537. Future minimum lease payments as of December 31, 2016 are due in future years as follows:

Years	Amount
2017	\$ 27,965
2018	2,330
	<u>\$ 30,295</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2016 and 2015:

	2016	2015
Annual scholarship programs	\$ 68,326	\$ 79,290
Therapeutic retreats	5,000	-
	<u>\$ 73,326</u>	<u>\$ 79,290</u>