

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
SPECIAL OPERATIONS WARRIOR FOUNDATION

December 31, 2015

## TABLE OF CONTENTS

Independent Auditors' Report	3 - 4
Financial Statements	
Statement of Financial Position	5
Statement of Activities	6
Statement of Change in Net Assets	7
Statement of Cash Flows	8
Statement of Functional Expenses	9
Notes to Financial Statements	10 - 21



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**RIVERO, GORDIMER & COMPANY, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Member  
American Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

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Herman V. Lazzara	Stephen G. Douglas
Marc D. Sasser	Michael E. Helton
Sam A. Lazzara	Christopher F. Terrigino
Kevin R. Bass	James K. O'Connor
Jonathan E. Stein	
Cesar J. Rivero, of Counsel	
Richard B. Gordimer, of Counsel	

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Special Operations Warrior Foundation

We have audited the accompanying financial statements of Special Operations Warrior Foundation (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year 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 audit. We conducted our audit 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 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 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 Special Operations Warrior Foundation as of December 31, 2015 and the changes in its net assets, cash flows and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

The computation of the accrued scholarship liability is a material amount to the financial statements and the change in the liability is reflected in the Statement of Activities. See note F - Accrued Scholarships Payable for further discussion.

*Bucio, Gordinier & Company, P.A.*

Tampa, Florida  
April 20, 2016

Special Operations Warrior Foundation  
STATEMENT OF FINANCIAL POSITION

December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>				
Cash and cash equivalents (note A4)	\$ 1,387,860	\$ -	\$ -	\$ 1,387,860
Investments (notes A5, A9, B and C)	89,064,462	207	415,000	89,479,669
Pledges receivable, net (notes A6 and D)	229,551	185,840	-	415,391
Prepaid expenses and other assets	7,226	-	-	7,226
Property and equipment, net of accumulated depreciation (notes A7 and E)	<u>916,615</u>	<u>-</u>	<u>-</u>	<u>916,615</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 91,605,714</u></u>	<u><u>\$ 186,047</u></u>	<u><u>\$ 415,000</u></u>	<u><u>\$ 92,206,761</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and accrued expenses	\$ 119,742	\$ -	\$ -	\$ 119,742
Accrued scholarships payable (notes C and F)	<u>32,257,000</u>	<u>-</u>	<u>-</u>	<u>32,257,000</u>
<b>Total liabilities</b>	<u>32,376,742</u>	<u>-</u>	<u>-</u>	<u>32,376,742</u>
Net assets (note H)	<u>59,228,972</u>	<u>186,047</u>	<u>415,000</u>	<u>59,830,019</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 91,605,714</u></u>	<u><u>\$ 186,047</u></u>	<u><u>\$ 415,000</u></u>	<u><u>\$ 92,206,761</u></u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENT OF ACTIVITIES

For the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>				
Public support				
Contributions (notes A8 and A10)	\$ 10,669,014	\$ 185,840	\$ 15,000	\$ 10,869,854
Special events, net of direct costs (note G)	1,290	-	-	1,290
Total public support	<u>10,670,304</u>	<u>185,840</u>	<u>15,000</u>	<u>10,871,144</u>
Other revenue				
Interest and dividends	3,443,158	1,334	-	3,444,492
Realized gain on investments	2,934,304	-	-	2,934,304
Unrealized loss on investments	(7,532,551)	(1,127)	-	(7,533,678)
Total other revenue	<u>(1,155,089)</u>	<u>207</u>	<u>-</u>	<u>(1,154,882)</u>
Total public support and revenue	<u>9,515,215</u>	<u>186,047</u>	<u>15,000</u>	<u>9,716,262</u>
<b>EXPENSES</b>				
Program services				
Scholarships and related expenses	7,272,218	-	-	7,272,218
Counseling and tutoring	404,470	-	-	404,470
Support to Special Operations Wounded				
Personnel	206,391	-	-	206,391
Total program services	<u>7,883,079</u>	<u>-</u>	<u>-</u>	<u>7,883,079</u>
Supporting services				
Management and general	546,335	-	-	546,335
Fundraising	676,249	-	-	676,249
Total supporting services	<u>1,222,584</u>	<u>-</u>	<u>-</u>	<u>1,222,584</u>
Total expenses	<u>9,105,663</u>	<u>-</u>	<u>-</u>	<u>9,105,663</u>
Change in net assets	<u>\$ 409,552</u>	<u>\$ 186,047</u>	<u>\$ 15,000</u>	<u>\$ 610,599</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation  
STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at December 31, 2014 as previously reported	\$ 57,934,420	\$ -	\$ -	\$ 57,934,420
Restatement (note K)	<u>1,285,000</u>	<u>-</u>	<u>-</u>	<u>1,285,000</u>
Net assets at December 31, 2014 as restated	59,219,420	-	-	59,219,420
Change in net assets	409,552	186,047	15,000	610,599
Transfers (note H)	<u>(400,000)</u>	<u>-</u>	<u>400,000</u>	<u>-</u>
Net assets at December 31, 2015	<u>\$ 59,228,972</u>	<u>\$ 186,047</u>	<u>\$ 415,000</u>	<u>\$ 59,830,019</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

Cash flows from operating activities	
Change in net assets	<u>\$ 610,599</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	42,890
Net realized and unrealized loss on investments	4,599,374
Decrease in pledges receivable	296,669
Decrease in prepaid expenses and other assets	4,670
Increase in accounts payable and accrued expenses	33,100
Decrease in accrued scholarships for cash disbursements	(1,619,784)
Accrued scholarships payable adjustment	<u>6,191,784</u>
Total adjustments	<u>9,548,703</u>
Net cash provided by operating activities	<u>10,159,302</u>
Cash flows used in investing activities	
Dividends/interest received on investments	(3,444,492)
Purchases and sales of investments, net	(5,557,058)
Purchases of property, plant and equipment	<u>(32,049)</u>
Net cash used in investing activities	<u>(9,033,599)</u>
Net change in cash and cash equivalents	1,125,703
Cash and cash equivalents at beginning of year	<u>262,157</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,387,860</u></u>
Supplemental disclosures of cash flow information	
Income taxes paid	<u>\$ -</u>
Interest paid	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2015

	Scholarships and related expenses	Counseling and Tutoring	Support to Special Operations Wounded Personnel	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 380,005	\$ 202,670	\$ 63,334	\$ 646,009	\$ 278,670	\$ 342,005	\$ 620,675	\$ 1,266,684
Payroll taxes and benefits	65,807	35,097	10,968	111,872	48,258	59,226	107,484	219,356
Accrued scholarship adjustment	6,191,784	-	-	6,191,784	-	-	-	6,191,784
Assistance paid to wounded personnel	-	-	72,446	72,446	-	-	-	72,446
Banking and investment fees	238,652	-	-	238,652	79,550	-	79,550	318,202
Conferences and meetings	9,516	865	865	11,246	2,595	3,460	6,055	17,301
Equipment rental and maintenance	12,478	2,496	1,248	16,222	3,743	4,991	8,734	24,956
Insurance	15,787	3,157	1,579	20,523	4,736	6,315	11,051	31,574
Internet technology services	33,834	10,150	-	43,984	10,150	13,534	23,684	67,668
Miscellaneous expenses	7,246	1,812	604	9,662	1,208	1,208	2,416	12,078
Postage and delivery	27,414	9,138	3,046	39,598	9,138	12,184	21,322	60,920
Printing and publications	8,113	2,596	3,894	14,603	4,868	12,981	17,849	32,452
Professional fees	35,579	13,342	13,342	62,263	22,237	4,447	26,684	88,947
Promotional materials	81,815	30,680	10,227	122,722	-	81,815	81,815	204,537
Supplies	31,154	15,577	3,894	50,625	11,683	15,577	27,260	77,885
Taxes, fees, and licenses	5,590	5,590	1,118	12,298	3,354	6,708	10,062	22,360
Telephone	4,483	4,483	640	9,606	1,281	1,921	3,202	12,808
Temporary help	21,923	7,308	3,654	32,885	18,269	21,923	40,192	73,077
Travel	77,488	51,658	12,915	142,061	38,744	77,488	116,232	258,293
Utilities	4,250	1,417	472	6,139	1,417	1,889	3,306	9,445
Depreciation expense	19,300	6,434	2,145	27,879	6,434	8,577	15,011	42,890
<b>Total expenses</b>	<b>\$ 7,272,218</b>	<b>\$ 404,470</b>	<b>\$ 206,391</b>	<b>\$ 7,883,079</b>	<b>\$ 546,335</b>	<b>\$ 676,249</b>	<b>\$1,222,584</b>	<b>\$ 9,105,663</b>

Note: The Foundation provided approximately \$1.6 million in direct scholarship grants, academic and financial aid during 2015. See notes A1, C and F.

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and a summary of its significant accounting policies consistently applied in the preparation of the accompanying financial statements follow:

1. Description of the Organization and Activities

Mission Statement - The Special Operations Warrior Foundation (“the Foundation”) ensures full financial assistance for post-secondary education from an accredited two or four year college, university, or technical or trade school, as well as educational and family counseling, and tutoring, to the surviving children of United States Army, Navy, Air Force, and Marine Corps special operations personnel who lose their lives in the line-of-duty. The Foundation also provides immediate financial assistance to severely combat-wounded and hospitalized special operations personnel and their families.

The Foundation has a staff of 14 employees and is governed by a Board of Directors (up to 25 members). The Board of Directors has three standing committees: Executive, Audit and Finance, and Governance. The Foundation office is located in Tampa, FL, in close proximity to MacDill AFB, the home of the United States Special Operations Command (USSOCOM).

For purposes of the audited financial statements, when the term ‘college’ is used, it is intended to be all inclusive of post-secondary educational schools, two and four year colleges and universities, private and out of state colleges and universities, technical and trade schools. When the term ‘scholarship assistance’ is used, it is intended to be all inclusive of full funding including tuition, room and board, books, fees, transportation, tutoring and miscellaneous expenses for the educational programs.

A summary of the activities of the Foundation follows:

Scholarship and Counseling Support - The Foundation has a unique program in which it begins establishing a relationship with the families within 30 days of fatality. The Foundation’s staff remains in contact with children and families, offers referral assistance, and works with each child to develop a personalized college education plan.

The Foundation provided approximately \$1.6 million in direct scholarship grants, academic and financial aid counseling, and related expenses for 161 children who attended college during 2015.

At December 31, 2015, there are 1129 children who survived 986 Special Operations personnel who gave their lives in patriotic service to their country. Of these 1129 children, 269 have graduated college. Many of the children who are eligible for the Foundation funding are also eligible for funding from other military related organizations of which they are not aware. Therefore, the Foundation has established liaisons with many other organizations and coordinates the funding for the children in the Foundation program. Thus, while the total annual cost of 161 children in college would be an estimated \$3.4 million, the Foundation leverages the cost of the requirements from several other outside funding including government educational benefits.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

However, the Foundation is prepared to provide full college funding should outside funding not be available. This unique program allows the Foundation to provide the funds required for each student's needs and to invest funds for the needs of the children who will attend college in the future. In addition to the direct financial assistance the Foundation provides in home tutoring for children from kindergarten through college graduation.

Support to Special Operations Wounded Personnel - The Foundation, at the request of the Special Operations Command, provides \$3,000 to meet the immediate financial needs their families face when Special Operations' men and women are hospitalized from wounds suffered in combat. The Foundation provided approximately \$72,400 in direct financial assistance for the year ended December 31, 2015.

Counseling and Tutoring - The Foundation counselors provide educational counseling, advise families about educational tutoring, and assist with college applications.

2. Basis of Accounting

The accompanying financial statements, presented on the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by the classification of assets, liabilities, and net assets into three classes - unrestricted, temporarily restricted and permanently restricted.

The Foundation adheres to the provisions of the Financial Accounting Standards Board *Accounting Standards Codification* ("FASB ASC").

FASB ASC 958-205 establishes standards for general purpose external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, and a statement of cash flows.

FASB ASC 958-605 requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of contributed services meeting certain criteria at fair values.

These three classifications are defined as follows:

- Unrestricted net assets – not subject to donor-imposed restrictions or the donor-imposed restrictions have expired.
- Temporarily restricted net assets – subject to donor-imposed stipulations that may be fulfilled by actions of the Foundation to meet the stipulations or become unrestricted by the passage of time.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Permanently restricted net assets – subject to donor-imposed stipulations that they be retained and invested permanently by the Foundation.

3. Liquidity

Assets and liabilities are presented in the accompanying statement of financial position according to their nearness of conversion to cash and, their maturity and resulting use of cash, respectively.

4. Cash Equivalents

Cash equivalents consist of highly liquid short-term market instruments and certificates of deposit with a maturity of three months or less when purchased. Cash equivalents approximated \$102,000 at December 31, 2015.

5. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

6. Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. Pledges that are expected to be collected after one year have been discontinued and are reflected in the financial statements at their net present value, net of any uncollectible amounts.

7. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 39 years. The Foundation capitalizes all purchases that exceed \$1,000.

8. Contributions

Contributions, including unconditional promises to give, are recognized in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the current year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Board Designated Funds

The Foundation is committed to provide post-secondary funding for all surviving children of Special Operations Warriors who die in the line duty. This commitment requires investing funds for current and future liabilities. Therefore the Board has directed funds, net of current year program expenses and operating expenses, be invested to meet the future liabilities.

10. Contributed Services, Materials, and Supplies

Material in-kind items used in the program (e.g., equipment, supplies, etc.) are recorded as income and expense at the time the items are placed into service or distributed.

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets; the services would have been purchased if not provided by contribution; and the service requires specialized skills.

In addition, the Foundation received significant contributions of time from its Directors and unpaid volunteers for fund-raising activities and other services to the Foundation. The value of this contributed time is not reflected in these statements since no objective basis is available to measure the value of these services.

11. Income Tax Status

The Foundation has received a determination of tax exempt status under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

The Foundation is not aware of any tax positions it has taken that are subject to a significant degree of uncertainty. Tax years after 2011 remain subject to examination by federal and state taxing authorities.

12. Allocation of Functional Expenses

Certain expenses are allocated on the basis of employee time involved or other allocable bases. Expenses incurred for benefiting a single function are reported directly into the appropriate function.

13. 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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE A - DESCRIPTION OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentration of credit risk are primarily cash and money market funds. The Foundation's cash deposits are placed in financial institutions which at times may exceed the Federal Deposit Insurance Corporation (FDIC) coverage. The Foundation has not experience any losses in its cash deposits and does not believe it is exposed to any significant credit risks related to uninsured amounts.

NOTE B - INVESTMENTS

Investments represent the Foundation's Board Designated endowment fund. This fund, designated to provide a revenue stream into perpetuity in order to fund the Foundation's scholarship liabilities, is stated at fair value and comprised of the following at December 31, 2015:

Money market funds	\$ 379,011
Fixed income	44,221,280
Stocks and mutual funds	<u>44,879,378</u>
	<u>\$ 89,479,669</u>

The Foundation's endowment is comprised of funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

In July 2011, the State of Florida adopted the *Florida Uniform Prudent Management of Institutional Funds Act* ("FUPMIFA"). The Foundation has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE B - INVESTMENTS - Continued

In accordance with the FUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and that appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

*Return Objectives, Risk parameters, and Strategies*

The Foundation has adopted an investment and spending policy for endowment assets that attempts to preserve the real (inflation adjusted) value of endowment assets, increase the real value of the portfolio and facilitate a potential distribution to support some level of future operations. The terms of the operating policies of the endowment funds (the "Fund") requires that the Fund will be managed by the Executive Committee and approved by the Board of Directors. The Executive Committee, along with the Audit and Finance Committee, are responsible to oversee the portfolio's investments and monitor the investments on an ongoing basis to ensure that long-term objectives are being met.

The Board of Directors has agreed to a target asset allocation for the portfolio's assets and seeks advice from a professional investment management firm which holds the assets. The Fund is to invest funds in accordance with the standards set forth in the Foundation's Investment Policy Statement (IPS).

*Spending Policy and How the Investment Objective Related to Spending Policy*

The Foundation's Board of Directors, on the recommendation of the Executive Committee, has adopted a spending policy that governs the annual distributions from the endowment fund that may be expended for current operations of the Foundation. This policy authorizes the Foundation to distribute from its endowment fund a specified percentage, to be determined by the Board of Directors (Board) from time to time, of the current market at budget time or year-end of the endowment fund.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE B - INVESTMENTS - Continued

The policy also allows the Board to base the distribution formula on the average market value over a period of several years as it chooses to do so. For the year ended December 31, 2015 the Board of Directors has elected not to distribute any funds from the endowment in order to grow the endowment fund.

Distributions cannot exceed the accumulated unspent earnings of the endowment without the Foundation's Board approval. Income earned in excess of the spending rate may be reinvested in endowment principal. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Changes in the endowment's assets are as follows for the year ended December 31, 2015:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment assets at December 31, 2014	\$ 85,077,494	\$ -	\$ -	\$ 85,077,494
Interest, dividends, realized and unrealized activity	(1,155,089)	207	-	(1,154,882)
Endowment additions	5,224,168	-	15,000	5,239,168
Investment fees	317,889	-	-	317,889
Transfers (note H)	(400,000)	-	400,000	-
Endowment assets at December 31, 2015	<u>\$ 89,064,462</u>	<u>\$ 207</u>	<u>\$ 415,000</u>	<u>\$ 89,479,669</u>

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board's *Accounting Standards Codification 820* 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on organization-specific data. These unobservable assumptions reflect the organization's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Cash and cash equivalents consist of cash deposits with financial institutions and money market funds. The Foundation uses quoted market prices of identical assets on active exchanges, or Level 1 valuations.

Investments primarily consist of publicly traded stocks, bonds and mutual funds. The Foundation uses quoted market prices of identical assets on active exchanges, or Level 1 valuations.

Accrued scholarships payable are based upon the number of potential students, actual costs, funding from other sources of college tuition, and management's estimates about the future costs of college tuition, future inflation and discount rates, or Level 3 valuations.

The methods described above may produce a fair value calculation that may not be indicative of the 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 fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following tables present financial assets and liabilities measured at fair value on a recurring basis:

December 31, 2015	Level 1	Level 2	Level 3	Fair Value
<b>Assets</b>				
Cash and money market funds	\$ 379,011	\$ -	\$ -	\$ 379,011
Common stock U.S. large cap	15,226			15,226
Mutual funds				
Bonds				
U.S. corporate	40,780,992	-	-	40,780,992
International	3,440,288	-	-	3,440,288
Equities				
Emerging markets	4,539,577	-	-	4,539,577
International real estate	1,307,524	-	-	1,307,524
International core	1,436,592	-	-	1,436,592
International small cap	3,033,772	-	-	3,033,772
International value	1,328,516	-	-	1,328,516
International large cap	1,576,306	-	-	1,576,306
U.S. small and micro cap	3,931,579	-	-	3,931,579
U.S. large cap	21,762,342	-	-	21,762,342
U.S. growth	1,973,886	-	-	1,973,886
U.S. value	3,974,058	-	-	3,974,058
Total assets	<u>\$ 89,479,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,479,669</u>
<b>Liabilities</b>				
Accrued scholarships payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,257,000</u>	<u>\$ 32,257,000</u>

The following table illustrates a rollforward for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2015:

	Accrued Scholarship Payable
Balance at December 31, 2014, as restated	
Change in scholarships payable accrual	\$ 27,685,000
Scholarship funds disbursed	6,191,784
Transfers in and/or out of Level 3, net	(1,619,784)
	-
Balance at December 31, 2015	<u>\$ 32,257,000</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE D - PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2015:

Total unconditional pledges	\$ 555,591
Less discount for present value (3%)	(14,160)
Less allowance for uncollectible pledges	<u>(126,040)</u>
Total pledges receivable, net	<u>\$ 415,391</u>

The expected collection of pledges receivable consist of the following:

Less than one year	\$ 405,591
One to five years	<u>150,000</u>
	<u>\$ 555,591</u>

NOTE E - PROPERTY AND EQUIPMENT

Land, buildings, equipment, and related accumulated depreciation consisted of the following at December 31, 2015:

Land	\$ 127,060
Buildings and improvements	744,691
Office equipment	195,064
Vehicles	<u>64,927</u>
	1,131,742
Less accumulated depreciation	<u>(247,176)</u>
	884,566
Assets not in service	<u>32,049</u>
	<u>\$ 916,615</u>

NOTE F - ACCRUED SCHOLARSHIPS PAYABLE

The Foundation assumes a liability for scholarship assistance for all children of Special Operations soldiers killed in the line of duty as of December 31, 2015. This liability exists until the child graduates college, or the child turns 26 years old (30 if they have served in the military). In 2015, the Foundation's Board of Directors voted to change the policy from providing full funding for the average national expense for a public college to allow children to attend any college school they qualify to attend.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE F - ACCRUED SCHOLARSHIPS PAYABLE - Continued

The policy change increased the average funding per student in 2015 by nearly \$2,000 and resulted in an adjustment to accrued scholarships payable of approximately \$6.2 million at December 31, 2015. In addition, the accrued scholarship liability was reduced in 2015 by approximately \$1.6 million for scholarship funds disbursed.

Every student's need is different based on the college they are qualified to attend. The liability accrued is at a significantly lesser rate than the maximum averages, since the Foundation leverages its scholarships with other sources of college assistance. As such, the liability is recorded at the average amount paid per student by the Foundation, based on known casualties at December 31, 2015. During 2015, the Foundation added 53 children to the scholarship program.

In computing the accrued scholarship liability, the Foundation estimates that college costs will grow at a rate greater than or equal to the inflation rate (5.0% at December 31, 2015). The liability is then discounted to its net present value using a discount rate of 1.7%.

NOTE G - SPECIAL EVENTS

The Foundation holds a number of special events in order to generate awareness and raise funds. Special events consisted of the following for the year ended December 31, 2015:

Gross receipts	\$ 959,980
Less contributions received	(805,343)
Less direct expenses	<u>(153,347)</u>
	<u>\$ 1,290</u>

NOTE H - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the Foundation. The net assets are then released and reclassified to unrestricted support when these restrictions are satisfied. Temporarily restricted net assets totaled \$186,047 at December 31, 2015, resulting primarily from time restrictions from pledges receivable.

Permanently restricted net assets are subject to donor stipulations required that they be maintained permanently, thereby restricting the use of principal. The income generated from the investment of permanently restricted net assets is used to provide financial support to the Foundation.

During 2015, the Foundation transferred \$400,000 from unrestricted net assets to permanently restricted net assets, as certain donors modified prior unrestricted gifts to fund the Foundation's permanently restricted endowment. At December 31, 2015, permanently restricted net assets totaled \$415,000.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2015

NOTE I - OPERATING LEASES

The Foundation leases certain equipment under non-cancelable operating leases. Approximate future minimum payments under the operating lease agreements are as follows:

<u>Year ending December 31,</u>	
2016	\$ 17,600
2017	17,600
2018	<u>10,600</u>
	<u>\$ 45,800</u>

Rent expense for the Foundation totaled approximately \$20,600 for the year ended December 31, 2015.

NOTE J - EMPLOYEE BENEFIT PLAN

The Foundation maintains a defined contribution 401(k) plan that provides benefits to all employees who have reached 18 years of age and have completed one year of service. The Foundation contributes 3% of employees' annual salary. In 2015, a profit sharing contribution was also approved. Contributions to the plan approximated \$105,300 for the year ended December 31, 2015.

NOTE K - RESTATEMENT

The Foundation has restated its beginning net assets at December 31, 2014 to properly reflect the change in methodology for the calculation of accrued scholarships payable and record the liability at its net present value. The net effect of the restatement resulted in an increase of \$1,285,000 in unrestricted net assets at December 31, 2014.

NOTE L - SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to December 31, 2015 as of April 20, 2016 which is the date the financial statements were available to be issued.