

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
SPECIAL OPERATIONS WARRIOR FOUNDATION

December 31, 2017 and 2016

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

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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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, changes in net assets, cash flows and functional expenses 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 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, 2017 and 2016 and the changes in its net assets, cash flows and functional expenses for the years 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.

A handwritten signature in black ink that reads "Bueco, Gardner & Company, P.A." The signature is written in a cursive, flowing style.

Tampa, Florida
March 8, 2018

Special Operations Warrior Foundation
STATEMENT OF FINANCIAL POSITION

December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents (note A4)	\$ 1,768,391	\$ 28,500	\$ 16,000	\$ 1,812,891
Investments (notes A5, A9, B and C)	121,678,981	153,721	830,000	122,662,702
Pledges receivable, net (notes A6 and D)	136,120	95,616	-	231,736
Prepaid expenses and other assets	7,049	-	-	7,049
Property and equipment, net of accumulated depreciation (notes A7 and E)	<u>875,397</u>	<u>-</u>	<u>-</u>	<u>875,397</u>
TOTAL ASSETS	<u>\$ 124,465,938</u>	<u>\$ 277,837</u>	<u>\$ 846,000</u>	<u>\$ 125,589,775</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 131,875	\$ -	\$ -	\$ 131,875
Accrued scholarships payable (notes C and F)	<u>41,710,000</u>	<u>-</u>	<u>-</u>	<u>41,710,000</u>
Total liabilities	41,841,875	-	-	41,841,875
Net assets (note G)	<u>82,624,063</u>	<u>277,837</u>	<u>846,000</u>	<u>83,747,900</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 124,465,938</u>	<u>\$ 277,837</u>	<u>\$ 846,000</u>	<u>\$ 125,589,775</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation
STATEMENT OF FINANCIAL POSITION

December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents (note A4)	\$ 1,956,065	\$ -	\$ -	\$ 1,956,065
Investments (notes A5, A9, B and C)	102,255,792	36,673	830,000	103,122,465
Pledges receivable, net (notes A6 and D)	213,284	141,318	-	354,602
Prepaid expenses and other assets	31,652	-	-	31,652
Property and equipment, net of accumulated depreciation (notes A7 and E)	879,986	-	-	879,986
TOTAL ASSETS	<u>\$ 105,336,779</u>	<u>\$ 177,991</u>	<u>\$ 830,000</u>	<u>\$ 106,344,770</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 112,238	\$ -	\$ -	\$ 112,238
Accrued scholarships payable (notes C and F)	36,321,000	-	-	36,321,000
Total liabilities	36,433,238	-	-	36,433,238
Net assets (note G)	68,903,541	177,991	830,000	69,911,532
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,336,779</u>	<u>\$ 177,991</u>	<u>\$ 830,000</u>	<u>\$ 106,344,770</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Contributions (notes A8 and A10)	\$ 11,013,248	\$ 28,500	\$ 16,000	\$ 11,057,748
Special events, net of direct costs of \$330,689	(152,779)	-	-	(152,779)
Total public support	<u>10,860,469</u>	<u>28,500</u>	<u>16,000</u>	<u>10,904,969</u>
Other revenue				
Interest and dividends	3,817,178	30,809	-	3,847,987
Realized gain on investments	203	-	-	203
Unrealized gain on investments	10,727,460	86,239	-	10,813,699
Total other revenue	<u>14,544,841</u>	<u>117,048</u>	<u>-</u>	<u>14,661,889</u>
Net assets released from restrictions	<u>45,702</u>	<u>(45,702)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>25,451,012</u>	<u>99,846</u>	<u>16,000</u>	<u>25,566,858</u>
EXPENSES				
Program services				
Scholarships and related expenses	9,464,875	-	-	9,464,875
Counseling, tutoring, preschool and internships	528,496	-	-	528,496
Support to Special Operations wounded personnel	521,357	-	-	521,357
Total program services	<u>10,514,728</u>	<u>-</u>	<u>-</u>	<u>10,514,728</u>
Supporting services				
Management and general	537,418	-	-	537,418
Fundraising	678,344	-	-	678,344
Total supporting services	<u>1,215,762</u>	<u>-</u>	<u>-</u>	<u>1,215,762</u>
Total expenses	<u>11,730,490</u>	<u>-</u>	<u>-</u>	<u>11,730,490</u>
Change in net assets	13,720,522	99,846	16,000	13,836,368
Net assets at beginning of year	<u>68,903,541</u>	<u>177,991</u>	<u>830,000</u>	<u>69,911,532</u>
Net assets at end of year	<u>\$ 82,624,063</u>	<u>\$ 277,837</u>	<u>\$ 846,000</u>	<u>\$ 83,747,900</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Public support				
Contributions (notes A8 and A10)	\$ 11,271,710	\$ -	\$ 315,000	\$ 11,586,710
Special events, net of direct costs of \$163,291	(44,664)	-	-	(44,664)
Total public support	<u>11,227,046</u>	<u>-</u>	<u>315,000</u>	<u>11,542,046</u>
Other revenue				
Interest and dividends	3,029,239	16,103	-	3,045,342
Realized gain (loss) on investments	(498,550)	2,392	-	(496,158)
Unrealized gain on investments	4,888,070	17,971	-	4,906,041
Total other revenue	<u>7,418,759</u>	<u>36,466</u>	<u>-</u>	<u>7,455,225</u>
Total public support and revenue	<u>18,645,805</u>	<u>36,466</u>	<u>315,000</u>	<u>18,997,271</u>
EXPENSES				
Program services				
Scholarships and related expenses	7,139,261	-	-	7,139,261
Counseling and tutoring	363,446	-	-	363,446
Support to Special Operations wounded personnel	277,578	-	-	277,578
Total program services	<u>7,780,285</u>	<u>-</u>	<u>-</u>	<u>7,780,285</u>
Supporting services				
Management and general	517,457	-	-	517,457
Fundraising	618,016	-	-	618,016
Total supporting services	<u>1,135,473</u>	<u>-</u>	<u>-</u>	<u>1,135,473</u>
Total expenses	<u>8,915,758</u>	<u>-</u>	<u>-</u>	<u>8,915,758</u>
Change in net assets	9,730,047	36,466	315,000	10,081,513
Net assets at beginning of year	59,228,972	186,047	415,000	59,830,019
Transfers (note G)	(55,478)	(44,522)	100,000	-
Net assets at end of year	<u>\$ 68,903,541</u>	<u>\$ 177,991</u>	<u>\$ 830,000</u>	<u>\$ 69,911,532</u>

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

STATEMENTS OF CASH FLOWS

For the year ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 13,836,368	\$ 10,081,513
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	35,788	45,080
Net realized and unrealized gain on investments	(10,813,902)	(4,409,883)
Decrease in pledges receivable	122,866	60,789
Decrease (increase) in prepaid expenses and other assets	24,603	(24,426)
Increase (decrease) increase in accounts payable and accrued expenses	19,637	(7,504)
Cash disbursements for accrued scholarships	(3,051,998)	(2,063,979)
Accrued scholarships payable adjustment	8,440,998	6,127,979
Total adjustments	<u>(5,222,008)</u>	<u>(271,944)</u>
Net cash provided by operating activities	<u>8,614,360</u>	<u>9,809,569</u>
Cash flows used in investing activities		
Dividends/interest received on investments	(3,847,987)	(3,045,342)
Purchases and sales of investments, net	(4,878,348)	(6,187,572)
Purchases of property, plant and equipment	<u>(31,199)</u>	<u>(8,450)</u>
Net cash used in investing activities	<u>(8,757,534)</u>	<u>(9,241,364)</u>
Net change in cash and cash equivalents	(143,174)	568,205
Cash and cash equivalents at beginning of year	<u>1,956,065</u>	<u>1,387,860</u>
Cash and cash equivalents at end of year	<u>\$ 1,812,891</u>	<u>\$ 1,956,065</u>
Supplemental disclosures of cash flow information		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Special Operations Warrior Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	Scholarships and related expenses	Counseling, Tutoring, Preschool and Internships	Support to Special Operations Wounded Personnel	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries	\$ 345,001	\$ 191,560	\$ 47,342	\$ 583,903	\$ 278,568	\$ 380,989	\$ 659,557	\$ 1,243,460
Payroll taxes and benefits	119,843	63,916	19,974	203,733	87,885	107,859	195,744	399,477
Accrued scholarship payable adjustment	8,440,998	-	-	8,440,998	-	-	-	8,440,998
Assistance paid to wounded personnel	-	-	413,792	413,792	-	-	-	413,792
Tutoring, interships and preschool assistance	-	165,568	-	165,568	-	-	-	165,568
Banking and investment fees	273,576	-	-	273,576	91,192	-	91,192	364,768
Conferences and meetings	7,718	702	702	9,122	2,105	2,807	4,912	14,034
Equipment rental and maintenance	20,539	4,108	2,054	26,701	6,162	8,216	14,378	41,079
Insurance	14,909	2,982	1,491	19,382	4,473	5,963	10,436	29,818
Internet technology services	31,074	9,322	-	40,396	9,322	12,430	21,752	62,148
Miscellaneous expenses	15,338	3,834	1,278	20,450	2,556	2,556	5,112	25,562
Postage and delivery	15,480	5,160	1,720	22,360	5,160	6,880	12,040	34,400
Printing and publications	11,873	3,799	5,699	21,371	7,124	18,997	26,121	47,492
Professional fees	19,646	7,367	7,367	34,380	12,279	2,456	14,735	49,115
Promotional materials	77,403	29,026	9,675	116,104	-	77,403	77,403	193,507
Supplies	14,190	7,095	1,774	23,059	5,321	7,095	12,416	35,475
Taxes, fees, and licenses	6,932	6,932	1,386	15,250	4,159	8,318	12,477	27,727
Telephone	3,274	3,274	468	7,016	935	1,403	2,338	9,354
Temporary help	810	270	135	1,215	675	810	1,485	2,700
Travel	24,475	16,316	4,079	44,870	12,237	24,475	36,712	81,582
Utilities	5,691	1,897	632	8,220	1,897	2,529	4,426	12,646
Depreciation expense	16,105	5,368	1,789	23,262	5,368	7,158	12,526	35,788
Total expenses	\$ 9,464,875	\$ 528,496	\$ 521,357	\$ 10,514,728	\$ 537,418	\$ 678,344	\$1,215,762	\$ 11,730,490

Note: The Foundation provided approximately \$3.1 million in direct scholarship grants, academic and financial aid during 2017. See notes A1, C and F.

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

	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	\$ 356,566	\$ 190,168	\$ 59,428	\$ 606,162	\$ 261,482	\$ 320,909	\$ 582,391	\$ 1,188,553
Payroll taxes and benefits	116,740	62,262	19,457	198,459	85,610	105,067	190,677	389,136
Accrued scholarship payable adjustment	6,127,979	-	-	6,127,979	-	-	-	6,127,979
Assistance paid to wounded personnel	-	-	157,120	157,120	-	-	-	157,120
Banking and investment fees	247,529	-	-	247,529	82,510	-	82,510	330,039
Conferences and meetings	2,640	240	240	3,120	720	960	1,680	4,800
Equipment rental and maintenance	12,443	2,489	1,245	16,177	3,733	4,977	8,710	24,887
Insurance	13,458	2,692	1,346	17,496	4,037	5,383	9,420	26,916
Internet technology services	34,324	10,297	-	44,621	10,297	13,729	24,026	68,647
Miscellaneous expenses	7,290	1,823	608	9,721	1,215	1,215	2,430	12,151
Postage and delivery	29,538	9,846	3,280	42,664	9,846	13,128	22,974	65,638
Printing and publications	10,538	3,372	5,058	18,968	6,323	16,860	23,183	42,151
Professional fees	23,638	8,864	8,864	41,366	14,774	2,955	17,729	59,095
Promotional materials	74,516	27,944	9,315	111,775	-	74,516	74,516	186,291
Supplies	17,898	8,949	2,237	29,084	6,712	8,949	15,661	44,745
Taxes, fees, and licenses	5,020	5,020	1,004	11,044	3,012	6,023	9,035	20,079
Telephone	2,973	2,973	425	6,371	849	1,274	2,123	8,494
Temporary help	7,440	2,481	1,240	11,161	6,202	7,442	13,644	24,805
Travel	23,348	15,565	3,891	42,804	11,674	23,348	35,022	77,826
Utilities	5,097	1,699	566	7,362	1,699	2,265	3,964	11,326
Depreciation expense	20,286	6,762	2,254	29,302	6,762	9,016	15,778	45,080
Total expenses	\$ 7,139,261	\$ 363,446	\$ 277,578	\$ 7,780,285	\$ 517,457	\$ 618,016	\$1,135,473	\$ 8,915,758

Note: The Foundation provided approximately \$2.0 million in direct scholarship grants, academic and financial aid during 2016. 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, 2017 and 2016

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 supports America's Army, Navy, Air Force, and Marine Corps Special Operations personnel through two primary programs: (1) Ensuring full financial assistance for post-secondary education from an accredited two or four-year college, university, technical or trade school, as well as educational counseling, preschool grants, and tutoring to the surviving children of Special Operations personnel who lose their lives in the line-of-duty and, (2) Provides immediate financial grants to severely combat-wounded and hospitalized Special Operations' personnel and their families.

The Foundation has a staff of 17 employees and is governed by a Board of Directors (up to 25 members). The Board of Directors has four standing committees: Executive, Audit and Finance, Investment Advisory, 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 a 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 \$3.1 and \$2.0 million in direct scholarship grants, academic and financial aid counseling, and related expenses for 187 and 181 children who attended college during 2017 and 2016, respectively.

At December 31, 2017, there are 1,262 children who survived 1,064 Special Operations personnel who gave their lives in patriotic service to their country. Of these 1,262 children, 312 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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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

Thus, while the total annual cost of 187 children in college would be an estimated \$5 million, the Foundation leverages the cost of the requirements from several other outside funding including government educational benefits.

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, and pre-school grants up to \$5,000 per year, per child in pre-school, ages three to five.

Support to Special Operations Wounded Personnel - The Foundation, at the request of the Special Operations Command, provides \$5,000 to meet the immediate financial needs their families face when Special Operations' men and women are hospitalized from wounds suffered in combat, or severely injured in training. The Foundation provided approximately \$400,000 and \$148,000 in direct financial assistance for the years ended December 31, 2017 and 2016, respectively.

Counseling and Tutoring - The Foundation's 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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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

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.
- 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, 2017 and 2016, respectively.

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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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

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.

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 of 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 fundraising 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 2013 remain subject to examination by federal and state taxing authorities.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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

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.

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 experienced 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 305,502	\$ 245,742
Fixed income	60,419,298	51,421,711
Stocks and mutual funds	<u>61,937,902</u>	<u>51,455,012</u>
	<u>\$ 122,662,702</u>	<u>\$ 103,122,465</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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

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.

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 the 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, and the Investment Advisory 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).

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The Endowment Fund 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.

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, 2017 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 approval of the Foundation's Board. 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 years ended December 31, 2017 and 2016:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment assets at December 31, 2015	\$ 89,064,462	\$ 207	\$ 415,000	\$ 89,479,669
Interest, dividends, realized and unrealized activity	7,418,759	36,466	-	7,455,225
Endowment additions	6,201,533	-	315,000	6,516,533
Investment fees	(328,962)	-	-	(328,962)
Transfers (note G)	(100,000)	-	100,000	-
Endowment assets at December 31, 2016	<u>102,255,792</u>	<u>36,673</u>	<u>830,000</u>	<u>103,122,465</u>
Interest, dividends, realized and unrealized activity	14,544,841	121,190	-	14,666,031
Endowment additions	5,238,974	-	16,000	5,254,974
Investment fees	(360,626)	(4,142)	-	(364,768)
Transfers (note G)	-	-	-	-
Endowment assets at December 31, 2017	<u>\$ 121,678,981</u>	<u>\$ 153,721</u>	<u>\$ 846,000</u>	<u>\$122,678,702</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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.

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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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.

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

December 31, 2017	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash and money market funds	\$ 305,502	\$ -	\$ -	\$ 305,502
Mutual funds				
Bonds				
Core Bonds	42,275,072	-	-	42,275,072
Multi-Sector Bonds	18,144,226	-	-	18,144,226
Equities				
Large Cap Growth	11,686,057	-	-	11,686,057
Large Cap Core	6,795,342	-	-	6,795,342
Large Cap Value	14,401,918	-	-	14,401,918
Small Cap Growth	4,776,744	-	-	4,776,744
Small Cap Value	3,387,713	-	-	3,387,713
Core International	8,227,148	-	-	8,227,148
Small International	4,244,027	-	-	4,244,027
Emerging Markets	6,715,599	-	-	6,715,599
Real Estate	1,703,354	-	-	1,703,354
 Total assets	 <u>\$ 122,662,702</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 122,662,702</u>
Liabilities				
Accrued scholarships payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,710,000</u>	<u>\$ 41,710,000</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

December 31, 2016	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash and money market funds	\$ 266,696	\$ -	\$ -	\$ 266,696
Mutual funds				
Bonds				
Core Bonds	36,278,922	-	-	36,278,922
Multi-Sector Bonds	15,169,458	-	-	15,169,458
Equities				
Large Cap Growth	9,389,082	-	-	9,389,082
Large Cap Core	5,175,243	-	-	5,175,243
Large Cap Value	12,918,285	-	-	12,918,285
Small Cap Growth	4,184,229	-	-	4,184,229
Small Cap Value	3,340,364	-	-	3,340,364
Core International	6,494,597	-	-	6,494,597
Small International	3,445,902	-	-	3,445,902
Emerging Markets	5,020,792	-	-	5,020,792
Real Estate	1,438,895	-	-	1,438,895
Total assets	<u>\$ 103,122,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,122,465</u>
Liabilities				
Accrued scholarships payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,321,000</u>	<u>\$ 36,321,000</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 years ended December 31, 2017 and 2016:

	Accrued Scholarship Payable
Balance at December 31, 2015	\$ 32,257,000
Change in scholarships payable accrual	6,127,979
Scholarship funds disbursed	(2,063,979)
Transfers in and/or out of Level 3, net	-
Balance at December 31, 2016	36,321,000
Change in scholarships payable accrual	8,440,998
Scholarship funds disbursed	(3,051,998)
Transfers in and/or out of Level 3, net	-
Balance at December 31, 2017	<u>\$ 41,710,000</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE D - PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give by donors. Pledges that are expected to be collected after one year have been discounted using a rate of 3%, and are reflected in the financial statements at their net present value. Pledges receivable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Total unconditional pledges	\$ 321,822	\$ 458,808
Less discount for present value (3%)	(4,384)	(8,682)
Less allowance for uncollectible pledges	<u>(85,702)</u>	<u>(95,524)</u>
Total pledges receivable, net	<u>\$ 231,736</u>	<u>\$ 354,602</u>

The expected collection of pledges receivable consists of the following:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 271,822	\$ 358,808
One to five years	<u>50,000</u>	<u>100,000</u>
	<u>\$ 321,822</u>	<u>\$ 458,808</u>

NOTE E - PROPERTY AND EQUIPMENT

Land, buildings, equipment, and related accumulated depreciation consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 127,060	\$ 127,060
Buildings and improvements	757,091	749,892
Office equipment	230,363	230,363
Software	24,000	-
Vehicles	<u>64,927</u>	<u>64,927</u>
	1,203,441	1,172,242
Less accumulated depreciation	<u>(328,044)</u>	<u>(292,256)</u>
	875,397	879,986
Assets not in service	<u>-</u>	<u>-</u>
	<u>\$ 875,397</u>	<u>\$ 879,986</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

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, 2017. 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 they qualify to attend.

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, 2017. During 2017, the Foundation added 93 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 (4.5% and 5.0% at December 31, 2017 and 2016, respectively). The liability is then discounted to its net present value using a discount rate of 3.5% and 1.7% at December 31, 2017 and 2016, respectively.

NOTE G - 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 \$277,837 and \$177,991 at December 31, 2017 and 2016, respectively, resulting primarily from time restrictions from pledges receivable.

Permanently restricted net assets are subject to donor stipulations requiring 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.

The Foundation transferred \$100,000 to permanently restricted net assets during the year ended December 2016, as certain donors modified prior gifts to fund the Foundation's permanently restricted endowment. The Foundation has permanently restricted net assets of \$846,000 and \$830,000 at December 31, 2017 and 2016, respectively.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE H - OPERATING LEASES

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

Year ending December 31,

2018

\$ 10,600

Rent expenses for the Foundation totaled approximately \$20,600 for each of the years ended December 31, 2017 and 2016.

NOTE I - 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 2017, a profit sharing contribution was also approved. Contributions to the plan approximated \$115,300 and \$105,600 for the years ended December 31, 2017 and 2016, respectively.

NOTE J - SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to December 31, 2017 as of March 8, 2018 which is the date the financial statements were available to be issued.