

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
SPECIAL OPERATIONS WARRIOR FOUNDATION

December 31, 2019

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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 statement of financial position as of December 31, 2019 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, 2019 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 G - Accrued Scholarships Payable for further discussion.

Report on Summarized Comparative Information

We have previously audited Special Operations Warrior Foundation's 2018 financial statements, and our report dated April 11, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tampa, Florida
March 23, 2020

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

Special Operations Warrior Foundation
STATEMENT OF FINANCIAL POSITION

December 31, 2019
(With comparative total for 2018)

	Without donor restriction	With donor restriction	Total December 31, 2019	Total December 31, 2018
ASSETS				
Cash and cash equivalents (note A5)	\$ 2,572,759	\$ -	\$ 2,572,759	\$ 2,031,756
Investments (notes A6, A10, C and D)	145,464,788	1,110,750	146,575,538	120,459,435
Pledges receivable, net (notes A7 and E)	-	323,626	323,626	197,208
Prepaid expenses and other assets	16,428	-	16,428	69,955
Property and equipment, net of accumulated depreciation (notes A8 and F)	805,035	-	805,035	841,967
TOTAL ASSETS	\$ 148,859,010	\$ 1,434,376	\$ 150,293,386	\$ 123,600,321
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 247,909	\$ -	\$ 247,909	\$ 384,991
Accrued scholarships payable (notes D and G)	50,725,000	-	50,725,000	46,660,000
Total liabilities	50,972,909	-	50,972,909	47,044,991
Net assets (note H)	97,886,101	1,434,376	99,320,477	76,555,330
TOTAL LIABILITIES AND NET ASSETS	\$ 148,859,010	\$ 1,434,376	\$ 150,293,386	\$ 123,600,321

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, 2019
(With comparative total for 2018)

	Without donor restriction	With donor restriction	Total December 31, 2019	Total December 31, 2018
PUBLIC SUPPORT AND REVENUE				
Public support				
Contributions (notes A9 and A11)	\$ 11,191,012	\$ 210,482	\$ 11,401,494	\$ 11,018,014
Special events, net of direct costs of \$320,075	<u>(131,885)</u>	<u>-</u>	<u>(131,885)</u>	<u>(97,702)</u>
Total public support	<u>11,059,127</u>	<u>210,482</u>	<u>11,269,609</u>	<u>10,920,312</u>
Other revenue				
Interest and dividends	3,656,204	41,096	3,697,300	4,422,950
Realized gain on investments	<u>7,310,872</u>	<u>119,446</u>	<u>7,430,318</u>	<u>1,103,798</u>
Total other revenue	<u>10,967,076</u>	<u>160,542</u>	<u>11,127,618</u>	<u>5,526,748</u>
Net assets released from restrictions	<u>84,064</u>	<u>(84,064)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>22,110,267</u>	<u>286,960</u>	<u>22,397,227</u>	<u>16,447,060</u>
EXPENSES				
Program services				
Scholarships and related expenses	7,325,862	-	7,325,862	9,161,513
Counseling, tutoring, preschool and internships	897,737	-	897,737	607,925
Support to Special Operations wounded personnel	<u>273,709</u>	<u>-</u>	<u>273,709</u>	<u>326,818</u>
Total program services	<u>8,497,308</u>	<u>-</u>	<u>8,497,308</u>	<u>10,096,256</u>
Supporting services				
Management and general	505,837	-	505,837	490,322
Fundraising	<u>973,946</u>	<u>-</u>	<u>973,946</u>	<u>828,392</u>
Total supporting services	<u>1,479,783</u>	<u>-</u>	<u>1,479,783</u>	<u>1,318,714</u>
Total expenses	<u>9,977,091</u>	<u>-</u>	<u>9,977,091</u>	<u>11,414,970</u>
Change in net assets before other items	12,133,176	286,960	12,420,136	5,032,090
Other changes in net assets:				
Unrealized gain (loss) on investments	<u>10,342,467</u>	<u>2,544</u>	<u>10,345,011</u>	<u>(12,224,660)</u>
Change in net assets	22,475,643	289,504	22,765,147	(7,192,570)
Net assets at beginning of year	<u>75,410,458</u>	<u>1,144,872</u>	<u>76,555,330</u>	<u>83,747,900</u>
Net assets at end of year	<u>\$ 97,886,101</u>	<u>\$ 1,434,376</u>	<u>\$ 99,320,477</u>	<u>\$ 76,555,330</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, 2019
(With comparative total for 2018)

	Total December 31, 2019	Total December 31, 2018
Cash flows from operating activities		
Change in net assets	<u>\$ 22,765,147</u>	<u>\$ (7,192,570)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	36,932	41,430
Unrealized (gain) loss on investments	(10,345,011)	12,224,660
(Increase) decrease in pledges receivable	(126,418)	34,528
Decrease (increase) in prepaid expenses and other assets	53,527	(62,906)
(Decrease) increase in accounts payable and accrued expenses	(137,082)	253,116
Cash disbursements for accrued scholarships	(2,574,172)	(3,526,513)
Accrued scholarships payable adjustment	<u>6,639,172</u>	<u>8,476,513</u>
Total adjustments	<u>(6,453,052)</u>	<u>17,440,828</u>
Net cash provided by operating activities	<u>16,312,095</u>	<u>10,248,258</u>
Cash flows used in investing activities		
Dividends/interest received on investments	(3,697,300)	(4,422,950)
Purchases and sales of investments, net	(12,073,792)	(5,598,443)
Purchases of property, plant and equipment	<u>-</u>	<u>(8,000)</u>
Net cash used in investing activities	<u>(15,771,092)</u>	<u>(10,029,393)</u>
Net change in cash and cash equivalents	541,003	218,865
Cash and cash equivalents at beginning of year	<u>2,031,756</u>	<u>1,812,891</u>
Cash and cash equivalents at end of year	<u>\$ 2,572,759</u>	<u>\$ 2,031,756</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, 2019
(With comparative total for 2018)

	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 December 31, 2019	Total December 31, 2018
Salaries	\$ 414,976	\$ 248,985	\$ 82,995	\$ 746,956	\$ 348,579	\$ 564,367	\$ 912,946	\$ 1,659,902	\$ 1,500,295
Payroll taxes and benefits	62,749	37,650	12,550	112,949	52,709	85,339	138,048	250,997	230,100
Accrued scholarship payable adjustment	6,639,172	-	-	6,639,172	-	-	-	6,639,172	8,476,513
Assistance paid to wounded personnel	-	-	143,780	143,780	-	-	-	143,780	206,600
Tutoring, internships and preschool assistance	-	507,957	-	507,957	-	-	-	507,957	247,276
Banking and other fees	8,589	-	-	8,589	-	79,059	79,059	87,648	80,247
Conferences and meetings	1,904	1,142	381	3,427	1,599	2,589	4,188	7,615	19,051
Equipment rental and maintenance	9,198	5,519	1,840	16,557	7,727	12,510	20,237	36,794	38,981
Insurance	11,703	7,022	2,341	21,066	9,830	15,916	25,746	46,812	26,753
Internet technology services	18,849	11,310	3,770	33,929	15,833	25,635	41,468	75,397	73,239
Miscellaneous expenses	4,746	2,847	949	8,542	3,987	6,454	10,441	18,983	58,879
Postage and delivery	5,654	3,392	1,131	10,177	4,749	7,689	12,438	22,615	36,876
Printing and publications	6,004	3,602	1,201	10,807	5,043	8,165	13,208	24,015	16,853
Professional fees	14,220	8,532	2,844	25,596	11,945	19,339	31,284	56,880	84,895
Promotional materials	75,910	28,466	9,489	113,865	-	75,910	75,910	189,775	94,462
Supplies	5,686	3,412	1,137	10,235	4,776	7,733	12,509	22,744	39,781
Taxes, fees, and licenses	3,636	2,181	727	6,544	3,054	4,944	7,998	14,542	25,436
Telephone	2,018	1,211	404	3,633	1,695	2,744	4,439	8,072	6,933
Travel	25,029	15,017	5,006	45,052	21,024	34,039	55,063	100,115	95,403
Utilities	6,586	3,952	1,317	11,855	5,532	8,957	14,489	26,344	14,967
Depreciation expense	9,233	5,540	1,847	16,620	7,755	12,557	20,312	36,932	41,430
Total expenses	\$ 7,325,862	\$ 897,737	\$ 273,709	\$ 8,497,308	\$ 505,837	\$ 973,946	\$1,479,783	\$ 9,977,091	\$11,414,970

Note: The Foundation provided approximately \$2.6 million in direct scholarship grants, academic and financial aid during 2019. See notes A1, D and G.

The accompanying notes are an integral part of this statement.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 is governed by management and 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 \$2.6 million in direct scholarship grants, academic and financial aid counseling, and related expenses for 198 children who attended college during 2019.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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

At December 31, 2019, there are 1,416 children who survived 1,136 Special Operations personnel who gave their lives in patriotic service to their country. Of these 1,416 children, 377 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 198 children in college would be an estimated \$5.5 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 \$8,000 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 up to \$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 \$144,000 in direct financial assistance for the year ended December 31, 2019.

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 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 classification of assets, liabilities, and net assets into two self-balancing net asset groups as follow:

- With Donor Restriction - Net assets with donor restrictions are net assets subject to donor-imposed stipulations that may be fulfilled by actions of the Foundation to meet the stipulations, that may become undesignated by the passage of time, or that require net assets to be permanently maintained, thereby restricting the use of principal.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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

- Without Donor Restriction - Net assets without donor restrictions are net assets not subject to donor-imposed restrictions or the donor-imposed restrictions have expired. These net assets are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes.

3. New Accounting Standards

During 2019, the Foundation adopted ASU 2018-08, *Clarifying the scope of the Accounting Guidance for Contributions Received and Contributions made* as well as ASU 2014-09 *Revenue from Contracts with Customers*. The Foundation adopted ASU 2018-08 and 2014-09 using the retrospective method. The adoption of these standards did not result in significant changes to the Foundation's accounting policies or impact its financial position, results of operations or cash flows. As such, prior period financial statements were not restated and there was no cumulative effect adjustment upon adoption.

4. 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. See also note B.

5. 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, 2019.

6. 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.

7. Pledges Receivable

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

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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

The Foundation is not aware of any tax positions it has taken that are subject to a significant degree of uncertainty. Tax years after 2015 remain subject to examination by federal and state taxing authorities.

13. Allocation of Functional Expenses

The statement of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas are allocated on the basis of employee time involved or other allocable bases.

14. 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.

15. 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 - LIQUIDITY AND AVAILABILITY OF RESOURCES

As a part of the Foundation's liquidity management, it invests cash in excess of daily requirements in short-term investments. There is a board designated endowment with the objective of setting funds aside to meet future scholarship liability needs. While the Foundation does not anticipate drawing on these board designated funds for purposes other than those identified, the amounts could be made available for current operations if necessary.

The Following reflects the Foundation's financial assets as of December 31, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE B - LIQUIDITY AND AVAILABILITY OF RESOURCES – Continued

Amounts not available include amounts restricted by time or purpose, amounts restricted by donors in perpetuity, and amounts designated by the board to meet future liabilities:

Cash and cash equivalents	\$ 2,572,759
Investments - money market funds	2,837,002
Investments - stocks and mutual funds	95,842,141
Investments - fixed income	47,896,395
Current portion of pledges receivable	<u>150,000</u>
 Total financial assets available within one year	 149,298,297
 Less:	
Amounts unavailable for general expenditures within one year, due to:	
Purpose restricted by donors	(110,000)
Restricted by donors in perpetuity	<u>(846,000)</u>
Total amounts unavailable for general expenditures within one year	 <u>(956,000)</u>
 Amounts unavailable to management without Board's approval:	
Board designated endowment	<u>(145,464,788)</u>
Total amounts unavailable to management without Board's approval	 <u>(145,464,788)</u>
 Total financial assets available to management for expenditure within one year	 <u><u>\$ 2,877,509</u></u>

NOTE C - 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, 2019:

Money market funds	\$ 2,837,002
Fixed income	47,896,395
Stocks and mutual funds	<u>95,842,141</u>
	<u><u>\$ 146,575,538</u></u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE C - INVESTMENTS - Continued

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 net assets with donor restriction in perpetuity (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.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE C - INVESTMENTS - Continued

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). See also note K.

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, 2019 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, 2019:

	Without donor restrictions - Board Designated	With donor restrictions	Total
Endowment assets at December 31, 2018	\$ 119,511,771	\$ 947,664	\$120,459,435
Interest, dividends, realized and unrealized activity	21,436,092	164,518	21,600,610
Endowment additions	4,643,474	-	4,643,474
Investment fees	(126,549)	(1,432)	(127,981)
Transfers	-	-	-
Endowment assets at December 31, 2019	<u>\$ 145,464,788</u>	<u>\$ 1,110,750</u>	<u>\$146,575,538</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE D - 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, 2019

NOTE D - 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 at December 31, 2019:

	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash and money market funds	\$ 2,837,002	\$ -	\$ -	\$ 2,837,002
Mutual funds				
Fixed Income				
Core Fixed Income	47,896,395	-	-	47,896,395
Equities				
Domestic Large Cap	62,705,279	-	-	62,705,279
Domestic Small Cap	11,093,033	-	-	11,093,033
International Growth	8,933,575	-	-	8,933,575
International Value	13,110,254	-	-	13,110,254
Total assets	<u>\$146,575,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$146,575,538</u>
Liabilities				
Accrued scholarships payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,725,000</u>	<u>\$ 50,725,000</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, 2019:

	Accrued Scholarship Payable
Balance at December 31, 2018	\$ 46,660,000
Change in scholarships payable accrual	6,639,172
Scholarship funds disbursed	(2,574,172)
Transfers in and/or out of Level 3, net	-
Balance at December 31, 2019	<u>\$ 50,725,000</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE E - 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, 2019:

Total unconditional pledges	\$ 340,000
Less discount	(16,374)
Less allowance for uncollectible pledges	<u>-</u>
Total pledges receivable net	<u><u>\$ 323,626</u></u>

The expected collection of pledges receivable consists of the following:

Less than one year	\$ 150,000
One to five years	<u>190,000</u>
	<u><u>\$ 340,000</u></u>

NOTE F - PROPERTY AND EQUIPMENT

Land, buildings, equipment, and related accumulated depreciation consisted of the following at December 31, 2019:

Land	\$ 127,060
Buildings and improvements	765,090
Office equipment	230,363
Software	24,000
Vehicles	<u>64,927</u>
	1,211,440
Less accumulated depreciation	<u>(406,405)</u>
	<u><u>\$ 805,035</u></u>

NOTE G - ACCRUED SCHOLARSHIPS PAYABLE

The Foundation assumes a liability for scholarship assistance for all children of Special Operations service members who die in the line of duty as of December 31, 2019. This liability exists until the child graduate college, or the child turns 33 years old.

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

NOTE G - ACCRUED SCHOLARSHIPS PAYABLE - Continued

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, 2019. During 2019, 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 (4.0% at December 31, 2019). The liability is then discounted to its net present value using a discount rate of 4.0% at December 31, 2019.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2019 as follows:

Net assets subject to donor imposed restrictions	\$ 220,000
Net assets subject to the passage of time	103,626
Endowment net assets subject to spending policy	264,750
Endowment net assets in perpetuity	<u>846,000</u>
Total net assets with donor restrictions	<u>\$ 1,434,376</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions are as follows:

Net assets released due to the passage of time	<u>\$ 84,064</u>
Total net assets released from restrictions	<u>\$ 84,064</u>

Special Operations Warrior Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019

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>	
2020	\$ 8,100
2021	<u>1,400</u>
	<u>\$ 9,500</u>

Rent expenses for the Foundation totaled approximately \$28,000 for the year ended December 31, 2019.

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 2019, a profit sharing contribution was also approved. Contributions to the plan approximated \$106,000 for the year ended December 31, 2019.

NOTE K - SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to December 31, 2019 as of March 23, 2020 which is the date the financial statements were available to be issued.