

Congressional Medal of Honor Foundation

Report on Financial Statements

For the years ended December 31, 2018 and 2017

Congressional Medal of Honor Foundation

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Independent Auditor's Report

To the Board of Directors
Congressional Medal of Honor Foundation
Arlington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Congressional Medal of Honor Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the Congressional Medal of Honor Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of a New Accounting Standard

As discussed in Note 1, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. The Congressional Medal of Foundation adopted ASU 2016-14 during the year ended December 31, 2018, and it was applied retrospectively. The adoption of this standard did not have any impact on the Congressional Medal of Honor Foundation's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Elliott Davis, LLC".

Charleston, South Carolina
August 27, 2019

Congressional Medal of Honor Foundation

Statements of Financial Position

As of December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 193,935 | \$ 631,475 |
| Accounts receivable | 186,122 | 162,525 |
| Contributions receivable, current portion | 733,386 | 922,136 |
| Inventory | 65,002 | 69,270 |
| Coins held for outreach and fundraising | 195,005 | 207,810 |
| Investments | 7,769,911 | 9,907,053 |
| Prepaid expenses | 77,971 | 22,602 |
| Total current assets | <u>9,221,332</u> | <u>11,922,871</u> |
| Non-current assets | | |
| Property and equipment, net | 189,822 | 290,969 |
| Contributions receivable, net of current portion and discount | - | 817,601 |
| Total non-current assets | <u>189,822</u> | <u>1,108,570</u> |
| Total assets | <u>\$ 9,411,154</u> | <u>\$ 13,031,441</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 720,996 | \$ 458,171 |
| Accrued expenses | - | 30,535 |
| Deferred revenues | - | 25,000 |
| Total current liabilities | <u>720,996</u> | <u>513,706</u> |
| Net assets | | |
| Net assets without donor restrictions | | |
| Undesignated | (233,721) | 69,189 |
| Board designated endowment funds | 7,774,040 | 9,907,987 |
| Total net assets without donor restrictions | <u>7,540,319</u> | <u>9,977,176</u> |
| Net assets with donor restrictions | <u>1,149,839</u> | <u>2,540,559</u> |
| Total net assets | <u>8,690,158</u> | <u>12,517,735</u> |
| Total liabilities and net assets | <u>\$ 9,411,154</u> | <u>\$ 13,031,441</u> |

See Notes to Financial Statements

Congressional Medal of Honor Foundation

Statement of Activities

For the year ended December 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| Revenues, gains, and other support | | | |
| Contributions | \$ 1,901,721 | \$ 432,500 | \$ 2,334,221 |
| In-kind contributions | 206,342 | - | 206,342 |
| Commemorative coin income | 12,449 | - | 12,449 |
| Medal of Honor book income | 19,205 | - | 19,205 |
| Interest and dividends, net | 217,841 | - | 217,841 |
| Realized gains on sales of investments | 377,561 | - | 377,561 |
| Unrealized losses on investments | (1,322,114) | - | (1,322,114) |
| Other income | 430 | - | 430 |
| | <u>1,413,435</u> | <u>432,500</u> | <u>1,845,935</u> |
| Net assets released from restrictions | 1,823,220 | (1,823,220) | - |
| Total revenues, gains, and other support | <u>3,236,655</u> | <u>(1,390,720)</u> | <u>1,845,935</u> |
| Expenses | | | |
| Program services | 4,164,970 | - | 4,164,970 |
| Management and general | 999,027 | - | 999,027 |
| Fundraising | 509,515 | - | 509,515 |
| Total expenses | <u>5,673,512</u> | <u>-</u> | <u>5,673,512</u> |
| Change in net assets | (2,436,857) | (1,390,720) | (3,827,577) |
| Net assets, beginning of year | <u>9,977,176</u> | <u>2,540,559</u> | <u>12,517,735</u> |
| Net assets, end of year | <u>\$ 7,540,319</u> | <u>\$ 1,149,839</u> | <u>\$ 8,690,158</u> |

See Notes to Financial Statements

Congressional Medal of Honor Foundation

Statement of Activities

For the year ended December 31, 2017

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|----------------------|
| Revenues, gains, and other support | | | |
| Contributions | \$ 3,114,204 | \$ 2,707,675 | \$ 5,821,879 |
| In-kind contributions | 363,551 | - | 363,551 |
| Commemorative coin income | 7,377 | - | 7,377 |
| Medal of Honor book income | 22,350 | - | 22,350 |
| Interest and dividends, net | 176,182 | - | 176,182 |
| Realized gains on sales of investments | 264,081 | - | 264,081 |
| Unrealized gains on investments | 932,799 | - | 932,799 |
| | <u>4,880,544</u> | <u>2,707,675</u> | <u>7,588,219</u> |
| Net assets released from restrictions | <u>969,262</u> | <u>(969,262)</u> | <u>-</u> |
| Total revenues, gains, and other support | <u>5,849,806</u> | <u>1,738,413</u> | <u>7,588,219</u> |
| Expenses | | | |
| Program services | 4,337,030 | - | 4,337,030 |
| Management and general | 679,993 | - | 679,993 |
| Fundraising | 360,663 | - | 360,663 |
| Total expenses | <u>5,377,686</u> | <u>-</u> | <u>5,377,686</u> |
| Change in net assets | 472,120 | 1,738,413 | 2,210,533 |
| Net assets, beginning of year | <u>9,505,056</u> | <u>802,146</u> | <u>10,307,202</u> |
| Net assets, end of year | <u>\$ 9,977,176</u> | <u>\$ 2,540,559</u> | <u>\$ 12,517,735</u> |

See Notes to Financial Statements

Congressional Medal of Honor Foundation

Statements of Functional Expenses

For the years ended December 31, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|------------------|------------------------|-------------|--------------|------------------|------------------------|-------------|--------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Compensation and related expenses | | | | | | | | |
| Salaries | \$ 488,175 | \$ 403,838 | \$ 199,017 | \$ 1,091,030 | \$ 540,933 | \$ 399,718 | \$ 81,907 | \$ 1,022,558 |
| Payroll taxes | 35,151 | 29,085 | 14,331 | 78,567 | 35,497 | 26,230 | 5,375 | 67,102 |
| Total compensation and related expenses | 523,326 | 432,923 | 213,348 | 1,169,597 | 576,430 | 425,948 | 87,282 | 1,089,660 |
| Other expenses | | | | | | | | |
| Character development program | 1,144,730 | - | - | 1,144,730 | 1,705,620 | - | - | 1,705,620 |
| Educational and fundraising events | 838,727 | - | 268,366 | 1,107,093 | 954,339 | - | 251,772 | 1,206,111 |
| Contributions to Society | 950,000 | - | - | 950,000 | 400,000 | - | - | 400,000 |
| MOH recipient outreach | 319,638 | - | - | 319,638 | 197,263 | - | - | 197,263 |
| Bad debt expense | - | 335,000 | - | 335,000 | - | - | - | - |
| Contributions and scholarships | 144,000 | - | - | 144,000 | 121,000 | - | - | 121,000 |
| Depreciation | 99,600 | 1,547 | - | 101,147 | 16,600 | 1,547 | - | 18,147 |
| Occupancy | - | 88,499 | - | 88,499 | - | 87,586 | - | 87,586 |
| Miscellaneous | 9,091 | 37,904 | 22,807 | 69,802 | 18,366 | 35,253 | 16,110 | 69,729 |
| MOH book | 68,595 | - | - | 68,595 | 60,317 | - | - | 60,317 |
| Travel | 29,972 | 29,972 | - | 59,944 | 37,390 | 37,390 | - | 74,780 |
| Professional services | 4,994 | 39,950 | 4,994 | 49,938 | 5,499 | 43,990 | 5,499 | 54,988 |
| Office, computer, website | 17,839 | 12,334 | - | 30,173 | 200,341 | 22,162 | - | 222,503 |
| Insurance | - | 13,047 | - | 13,047 | - | 19,809 | - | 19,809 |
| Burials and gravesite markers | 8,645 | - | - | 8,645 | 5,683 | - | - | 5,683 |
| Bank and payroll service charges | - | 7,851 | - | 7,851 | - | 6,308 | - | 6,308 |
| Living history project | 5,813 | - | - | 5,813 | 38,182 | - | - | 38,182 |
| Total other expenses | 3,641,644 | 566,104 | 296,167 | 4,503,915 | 3,760,600 | 254,045 | 273,381 | 4,288,026 |
| Total expenses | \$ 4,164,970 | \$ 999,027 | \$ 509,515 | \$ 5,673,512 | \$ 4,337,030 | \$ 679,993 | \$ 360,663 | \$ 5,377,686 |

See Notes to Financial Statements

Congressional Medal of Honor Foundation

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|-------------------|
| Operating activities | | |
| Change in net assets | \$ (3,827,577) | \$ 2,210,533 |
| Adjustments to reconcile change in net assets to cash (used for) provided by operating activities: | | |
| Depreciation | 101,147 | 18,147 |
| Change in discount to present value of contributions receivable | (71,983) | 65,427 |
| Bad debt expense | 335,000 | - |
| Realized gains on sales of investments | (377,561) | (264,081) |
| Unrealized losses (gains) on investments | 1,322,114 | (932,799) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (23,597) | 55,855 |
| Contributions receivable | 743,334 | (1,541,667) |
| Inventory | 4,268 | 3,566 |
| Coins held for outreach and fundraising | 12,805 | 10,699 |
| Prepaid expenses | (55,369) | 308,399 |
| Accounts payable | 262,825 | 183,225 |
| Accrued expenses | (30,535) | (2,635) |
| Deferred revenues | (25,000) | (5,000) |
| Net cash (used for) provided by operating activities | <u>(1,630,129)</u> | <u>109,669</u> |
| Investing activities | | |
| Proceeds from sales of investments | 2,065,019 | 697,920 |
| Purchases of investments | (872,430) | (877,854) |
| Purchases of property and equipment | - | (298,800) |
| Net cash provided by (used for) investing activities | <u>1,192,589</u> | <u>(478,734)</u> |
| Net change in cash and cash equivalents | <u>(437,540)</u> | <u>(369,065)</u> |
| Cash and cash equivalents, beginning of year | <u>631,475</u> | <u>1,000,540</u> |
| Cash and cash equivalents, end of year | <u>\$ 193,935</u> | <u>\$ 631,475</u> |
| Noncash investing activity | | |
| Property and equipment purchases included in accounts payable | <u>\$ -</u> | <u>\$ 199,200</u> |

See Notes to Financial Statements

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies

Nature of activities:

The Congressional Medal of Honor Foundation (the "Foundation") was formed for the purpose of supporting the goals and purposes of the Congressional Medal of Honor Society of the United States of America (the "Society"). These goals and purposes include: protecting, upholding and preserving the dignity and honor of the Medal; providing appropriate aid to all persons to whom the Medal has been awarded and needy veterans, including the widow and/or children; promoting allegiance to the Government of the United States of America and to its constitution, and to the service of our nation in peace and war; and promoting and perpetuating the principles upon which our nation is founded, foster patriotism and to inspire and stimulate the youth of our nation to become worthy citizens of the United States of America. Resources for the Foundation's activities are primarily provided by contributions and investment income.

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation:

In accordance with generally accepted accounting principles ("GAAP"), the Foundation is required to report information regarding its financial position and activities according to two classes of net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Foundation had net assets with temporary donor restrictions of \$1,149,839 and \$2,540,559 as of December 31, 2018 and 2017, respectively. The Foundation did not have any net assets with permanent donor restrictions at December 31, 2018 or 2017.

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition:

Contributions and grants are recognized as revenue when they are received and unconditionally pledged. Contributions received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

Coin income and book income are recognized as revenue when coins or books are sold.

Deferred revenue:

Deferred revenue consists of payments received during the years ended December 31, 2018 and 2017 for events that will occur in the subsequent year.

Cash and cash equivalents:

For purposes of the Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. This includes cash in banks and money market funds.

Availability of funds for general expenditures:

The Foundation has certain net assets that are available for general expenditures within one year of December 31, 2018 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2).

Accounts receivable:

Accounts receivable are carried at original invoice amount, less (if necessary) an estimate for doubtful receivables made by management based on past collection history. As of December 31, 2018 and 2017, the Foundation had receivables for outreach event sponsorships and scholarship support, among other miscellaneous balances. An allowance for doubtful accounts was not recorded as of December 31, 2018 or 2017, as management believes that these receivables are fully collectible.

Contributions receivable:

Contributions receivable which represent multi-year pledges are recognized as revenue when they are unconditionally pledged. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount is netted with contribution revenue.

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Contributions receivable, continued:

The Foundation provides for an allowance for uncollectible contributions based on management's estimate of the collectability of receivables. No allowance was recorded at December 31, 2018 as management believes all contributions receivable are fully collectible. No allowance was recorded at December 31, 2017 as management believed all contributions were collectible. However, during the year ended December 31, 2018, \$335,000 of contributions receivable were written off based on additional discussions with specific donors.

Inventory:

Inventory is comprised of Medal of Honor commemorative gold and silver coins held for resale. Purchased inventory is stated at lower of cost or net realizable value, principally on the average cost method.

Coins held for outreach and fundraising:

75% of the Medal of Honor gold and silver commemorative coins are held for future outreach and fundraising events by the Foundation. As of December 31, 2018 and 2017, these coins are stated at a cost of \$195,005 and \$207,810, respectively.

Investments:

Investments purchased by the Foundation are initially recorded at their cost, and donated investments are recorded at fair value on the date they are received as a donation. The Foundation liquidates donated marketable securities within a few weeks of the donation in order to use the funds for operating purposes or to invest the proceeds in accordance with the Foundation's overall investment strategy. Investments in marketable securities with readily determinable fair values and all investments in debt securities are adjusted to their fair values as of the dates of the Statements of Financial Position. Unrealized gains and losses are included in the Statements of Activities.

Income tax status:

The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction and has been classified as a Foundation other than a private foundation.

The Financial Accounting Standards Board ("FASB") provides guidance on the Foundation's evaluation of accounting for uncertainty in income taxes. Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance for the years ended December 31, 2018 or 2017. The Foundation's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties, if any, as other expense. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years before 2015.

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Donated services:

Donated services are recognized as contributions in accordance with *Accounting for Contributions Received and Contributions Made*, if the services, a) create or enhance nonfinancial assets, or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Volunteers also provide services that are not recognized as contributions because the recognition criteria were not met.

Property and equipment, net:

The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000. Purchased property and equipment is carried at cost. Donated equipment is carried at the approximated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, once assets are placed in service. Estimated useful lives range from three to ten years.

Endowment funds:

The Board of Directors of the Foundation follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In accordance with UPMIFA, the Foundation classifies as permanently restricted net assets with donor restrictions: (a) the original value of any 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets with donor restrictions is classified as temporarily restricted net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Board of Directors may also designate certain net assets without donor restrictions to be included as part of the endowment, including earnings on those designated net assets.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investments may be increased through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets an asset allocation that places an emphasis on low to moderate risk equities and bonds, fixed income securities, and alternative investments to achieve its long-term objectives within prudent risk constraints.

Interest and dividends earned on the endowment account, not to exceed five percent of principal, may be transferred to the general operating account, as approved by the Board of Directors. As noted above, certain net assets without donor restrictions may be added to the endowment principal and are subject to the endowment account restrictions, except as approved by a majority vote of the board of directors. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of broad market measures of return on investments. Actual returns from any given year may vary from this amount.

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Fair value:

The Foundation utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation's financial instruments principally consist of investments. Investments are reported at fair value as required by GAAP (see Note 10).

Use of estimates:

The preparation of financial statements 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.

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses of the Foundation include:

Program expenses - Program expenses include: operation of the character development and LiveUp programs, support of the Congressional Medal of Honor Society, hosting of educational and fundraising events, as well as outreach initiatives.

Management and general expenses - Management and general expenses include the general and administrative costs of the Foundation.

Fundraising expenses - These expenses include direct and indirect activities undertaken to solicit contributions from donors.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and the method of allocation include:

| <u>Expense Type</u> | <u>Method of Allocation</u> |
|------------------------------------|--|
| Salaries, payroll taxes | Time and effort |
| Educational and fundraising events | Direct costs to programs and fundraising |
| Office, computer, website | Direct costs to programs; remaining to management/general |
| Travel | Based on estimate of utilization |
| Miscellaneous | Direct costs to programs, management/general, fundraising |
| Professional services | Based on estimate of utilization |
| Depreciation | LiveUp website depreciation to programs; remaining to management/general |

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. The Foundation has adopted this standard for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. As allowed under the standard, the liquidity footnote disclosure (see Note 2) has not been presented for the year ended December 31, 2017.

The new standards change the following aspects of the Foundation's financial statements:

- The temporarily restricted and permanently restricted (as applicable) net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- Disclosure of the allocation methodology for functional expenses.
- The financial statements include a new disclosure about liquidity and availability of resources (see Note 2).

See below for impact of the restatement as of December 31, 2017:

| | <u>As Originally Presented</u> | <u>After Adoption of ASU 2016-14</u> |
|---------------------------------------|------------------------------------|--|
| Unrestricted net assets | \$ 9,977,176 | \$ - |
| Temporarily restricted net assets | 2,540,559 | - |
| Net assets without donor restrictions | - | 9,977,176 |
| Net assets with donor restrictions | - | 2,540,559 |
| Total net assets | <u>\$ 12,517,735</u> | <u>\$ 12,517,735</u> |

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Foundation for reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the impact of this new guidance on its financial statements.

Congressional Medal of Honor Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the statement of activities. The amendments will be effective for the Foundation's fiscal year ended December 31, 2020. Early adoption is permitted. The Foundation is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Foundation's net assets or changes in net assets.

Subsequent events:

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 27, 2019, the date the financial statements were available to be issued.

Note 2. Availability and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Statement of Financial Position date of December 31, 2018, are comprised of the following at December 31, 2018:

| | |
|--|---------------------|
| Financial assets at year end: | \$ 9,411,154 |
| Less amounts not available to be used within one year due to illiquidity: | |
| Inventory | (65,002) |
| Coins held for outreach and fundraising | (195,005) |
| Prepaid expenses | (77,971) |
| Property and equipment, net | <u>(189,822)</u> |
| | <u>(527,800)</u> |
| Less amounts not available to be used within one year due to: | |
| Board designations/donor imposed restrictions: | |
| Board designated endowment funds, net of spendable amounts | <u>(7,385,338)</u> |
| | <u>(7,385,338)</u> |
| Financial assets available to meet cash needs for general expenditures over the next twelve months | <u>\$ 1,498,016</u> |

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Notes to Financial Statements

December 31, 2018 and 2017

Note 2. Availability and Liquidity, Continued

The Foundation has committed to provide funding to the Society in 2019 though the exact amount is not determinable as of the date of this report. As part of its liquidity plan, the Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Foundation invests excess cash in short-term investments, including money market accounts, and has the ability to redeem certain investments as necessary to meet its obligations.

Note 3. Information on Certain Expenses

During the years ended December 31, 2018 and 2017, the Foundation's focus was on education and the Character Development Program ("CDP"), including the LiveUp program. For the year ended December 31, 2018, expenses of \$1,107,093 and \$1,144,730, respectively, were incurred for education and the CDP programs. Of the CDP total in 2018, approximately \$451,000 was spent on continuing servicing costs for the LiveUp website. For the year ended December 31, 2017, expenses of \$1,206,111 and \$1,705,620, respectively, were incurred for education and the CDP programs. Of the CDP total in 2017, approximately \$642,000 was spent on continuing servicing costs for the LiveUp website.

Note 4. Investments

Total investments for the years ended December 31 consist of the following:

| | 2018 | | |
|--------------------------------------|---------------------|---------------------|----------------------------|
| | Cost | Carrying Value | Net Unrealized Gain (Loss) |
| Mutual funds | \$ 4,229,709 | \$ 3,816,515 | \$ (413,194) |
| Exchange-traded and closed-end funds | <u>3,183,562</u> | <u>3,953,396</u> | <u>769,834</u> |
| Total | <u>\$ 7,413,271</u> | <u>\$ 7,769,911</u> | <u>\$ 356,640</u> |
| | 2017 | | |
| | Cost | Carrying Value | Net Unrealized Gain (Loss) |
| Mutual funds | \$ 4,027,601 | \$ 4,214,210 | \$ 186,609 |
| Exchange-traded and closed-end funds | <u>4,200,698</u> | <u>5,692,843</u> | <u>1,492,145</u> |
| Total | <u>\$ 8,228,299</u> | <u>\$ 9,907,053</u> | <u>\$ 1,678,754</u> |

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Note 4. Investments, Continued

The following table shows the gross unrealized losses and fair value of the Foundation's investments, with unrealized losses that are deemed to be temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

| | 2018 | | | |
|--------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|
| | 12 Months or Longer | | 12 Months or Less | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mutual funds | \$ 1,380,572 | \$ (136,035) | \$ 1,926,624 | \$ (302,303) |
| Exchange-traded and closed-end funds | <u>239,252</u> | <u>(36,842)</u> | <u>262,769</u> | <u>(980)</u> |
| Total investments | <u>\$ 1,619,824</u> | <u>\$ (172,877)</u> | <u>\$ 2,189,393</u> | <u>\$ (303,283)</u> |
| | 2017 | | | |
| | 12 Months or Longer | | 12 Months or Less | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mutual funds | \$ 1,293,419 | \$ (74,333) | \$ - | \$ - |
| Exchange-traded and closed-end funds | <u>277,033</u> | <u>(3,199)</u> | <u>-</u> | <u>-</u> |
| Total investments | <u>\$ 1,570,452</u> | <u>\$ (77,532)</u> | <u>\$ -</u> | <u>\$ -</u> |

The Foundation has the ability and the intent to hold these investments until such time as the value recovers. The Foundation believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and, therefore, these losses are not considered other-than-temporary.

Net investment income is comprised of the following for the years ended December 31:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Dividends and interest | \$ 253,922 | \$ 209,831 |
| Investment fees | <u>(36,081)</u> | <u>(33,649)</u> |
| Interest and dividends, net | <u>217,841</u> | <u>176,182</u> |
| Realized gains | 377,561 | 264,081 |
| Unrealized (losses) gains | <u>(1,322,114)</u> | <u>932,799</u> |
| Net unrealized and realized (losses) gains | <u>(944,553)</u> | <u>1,196,880</u> |
| Net investment (loss) income | <u>\$ (726,712)</u> | <u>\$ 1,373,062</u> |

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Note 5. Concentrations of Credit Risk

The Foundation maintains cash and cash equivalents balances in one financial institution. As of December 31, 2018 and 2017, the Federal Deposit Insurance Corporation ("FDIC") insures accounts up to \$250,000 in aggregate per institution. The Securities Investor Protection Corporation insures brokerage accounts at each institution up to \$500,000 with a maximum of \$250,000 allowed for cash claims. From time to time, cash and investment balances may exceed insurance limits.

Note 6. Contributions Receivable, Net

Contributions receivable as of December 31, 2018 and 2017 are unconditional. Contributions receivable that are expected to be received in more than one year have been discounted to present value at 4.34% for 2017, based on the average annual federal prime rate and annual applicable federal rate in place at the time of the contribution. No contributions receivable are expected to be received in more than one year as of December 31, 2018.

Contributions receivable consist of the following at December 31:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------------|---------------------|
| Receivable in less than one year | \$ 733,386 | \$ 922,136 |
| Receivable in one to five years | - | 889,583 |
| Total contributions receivable | 733,386 | 1,811,719 |
| Less: discount to net present value | - | (71,982) |
| Contributions receivable, net | <u>\$ 733,386</u> | <u>\$ 1,739,737</u> |

At December 31, 2018, 2 donors had contributions receivable balances totaling \$733,333 representing nearly 100% of gross contributions receivable. At December 31, 2017, 3 donors had contributions receivable balances totaling approximately \$1,711,000 representing 94% of gross contributions receivable.

Note 7. Property and Equipment, Net

Property and equipment included the following at December 31:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------------|-------------------|
| Kitchen remodel | \$ 15,474 | \$ 15,474 |
| LiveUp website | 298,800 | 298,800 |
| | 314,274 | 314,274 |
| Less: accumulated depreciation | (124,452) | (23,305) |
| | <u>\$ 189,822</u> | <u>\$ 290,969</u> |

Depreciation expense for the years ended December 31, 2018 and 2017 was \$101,147 and \$18,147, respectively.

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Note 8. Endowments

The Foundation's endowment consists of funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The activity in the Endowment consisted of the following for the years ended December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Board-designated endowment funds | \$ <u>7,774,040</u> | \$ <u>9,907,987</u> |
| Changes in endowment net assets: | | |
| Endowment net assets, beginning of year | \$ 9,907,987 | \$ 8,538,929 |
| Investment return: | | |
| Investment income, net of fees | 210,606 | 172,178 |
| Net realized and unrealized (losses) gains | <u>(944,553)</u> | <u>1,196,880</u> |
| Total investment return | (733,947) | 1,369,058 |
| Board approved expenditures | <u>(1,400,000)</u> | - |
| Endowment net assets, end of year | \$ <u>7,774,040</u> | \$ <u>9,907,987</u> |

Note 9. In-Kind Contributions

In 2018, the Foundation received in-kind contributions of \$178,662 for various dinners, hotel and travel, and venue costs for events and recipients, as well as \$27,680 in legal services provided by a board member. In 2017, the Foundation received in-kind contributions of \$330,286 for various dinners, hotel and travel, and venue costs for events and recipients, as well as \$33,265 in legal services provided by a board member. Corresponding expenses have been recorded for these contributions in the Statements of Activities.

Note 10. Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:** Quoted market prices in active markets for identical assets or liabilities.
- Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3:** Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs an analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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Notes to Financial Statements

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Note 10. Fair Value Measurements, Continued

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Investments – *mutual funds, exchange-traded and closed-end funds*: Valued at the net asset value of units held by the Foundation at year end using closing prices reported in the active market.

There were no assets or liabilities measured on a non-recurring basis at December 31, 2018 or 2017. There were no liabilities measured at fair value on a recurring basis at December 31, 2018 or 2017.

Fair values of assets measured on a recurring basis are as follows at December 31:

| | 2018 | | | |
|--------------------------------------|---------------------|---------------------|----------------|----------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mutual funds | \$ 3,816,515 | \$ 3,816,515 | \$ - | \$ - |
| Exchange-traded and closed-end funds | <u>3,953,396</u> | <u>3,953,396</u> | - | - |
| Total Investments | <u>\$ 7,769,911</u> | <u>\$ 7,769,911</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2017 | | | |
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mutual funds | \$ 4,214,210 | \$ 4,214,210 | \$ - | \$ - |
| Exchange-traded and closed-end funds | <u>5,692,843</u> | <u>5,692,843</u> | - | - |
| Total Investments | <u>\$ 9,907,053</u> | <u>\$ 9,907,053</u> | <u>\$ -</u> | <u>\$ -</u> |

Note 11. Related Party Transactions

During the years ended December 31, 2018 and 2017, the Foundation gave \$950,000 and \$400,000, respectively, to the Society in support of the Society's purpose. As of December 31, 2018 and 2017, \$237,500 and \$0 was payable to the Society. These expenses are included in Contributions to Society on the Statements of Functional Expenses.

During the years ended December 31, 2018 and 2017, the Foundation received \$278,880 and \$390,890, respectively, from board members in personal contributions for outreach, fundraising, and general purposes, including in-kind legal work. Also during the years ended December 31, 2018 and 2017, the Foundation received \$20,000 and \$50,000, respectively, from the financial institution where it maintains its cash, cash equivalent and investment balances.

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Note 12. Simple IRA Plan

The Foundation has a SIMPLE IRA plan (the "Plan") which became effective on March 22, 2013. In order to be eligible for participation, an employee must be employed with the Foundation for 90 calendar days. The Foundation can match employee contributions up to 3 percent of the employee's compensation. For any calendar year, the Foundation can make non-elective contributions equal to 2 percent of eligible employee compensation in place of making matching contributions. Total employer contributions for the years ended December 31, 2018 and 2017 were \$20,961 and \$19,922, respectively.

Note 13. Operating Lease

The Foundation leases its office space under the terms of an operating lease expiring in November 2022. The lease calls for future rent increases; annual expense approximates rent expense on a straight-line basis. Lease expense was \$78,245 and \$75,763 for the years ending December 31, 2018 and 2017, respectively, and is included in management and general expenses in the Statements of Activities.

Future minimum lease payments for the years ending December 31 are as follows:

| | | |
|------|----|----------------|
| 2019 | \$ | 77,950 |
| 2020 | | 80,289 |
| 2021 | | 82,697 |
| 2022 | | <u>77,885</u> |
| | \$ | <u>318,821</u> |

Note 14. Net Assets With Donor Restrictions

Net assets with temporary donor restrictions are available for the following purposes as of December 31:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Rival Golf Classic scholarships | \$ 87,966 | \$ 129,966 |
| Time restricted contributions receivable | - | 198,070 |
| Educator award | 1,221 | 86,221 |
| Lifeline | 7,796 | 4,580 |
| Kiosks Everywhere initiative | 43,260 | 48,352 |
| Character Development Program / Direct to Kids | 420,032 | 1,098,370 |
| Medal of Honor Day | 589,564 | 950,000 |
| Western Region support | - | <u>25,000</u> |
| | <u>\$ 1,149,839</u> | <u>\$ 2,540,559</u> |

Net assets released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors were \$1,823,220 and \$969,262 for the years ended December 31, 2018 and 2017, respectively.

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Note 15. Subsequent Events

As of March 2019, various educational and outreach programs previously run by the Congressional Medal of Honor Foundation were transitioned to the Congressional Medal of Honor Society of the United States of America (the "Society"). These programs, which will be run by the Society in the future, include the Character Development Program, the LiveUp program, Citizens Honors, and the Grave Marker program, which will have a significant impact on the Foundation in 2019 and going forward.