



Consolidated Financial Statements  
December 31, 2021 and 2020

# Folds of Honor Foundation

# Folds of Honor Foundation

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December 31, 2021 and 2020

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## Independent Auditor's Report

To the Board of Directors  
Folds of Honor Foundation  
Owasso, Oklahoma

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Folds of Honor Foundation, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Folds of Honor Foundation as of December 31, 2021 and 2020, 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.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Folds of Honor Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Correction of Error*

As discussed in Note 9 to the financial statements, certain errors resulting in understatement of amounts previously reported for beneficial interest in a perpetual trust and net assets with donor restrictions as of December 31, 2020 and 2019, were discovered by management during the current year. Additionally, the revenues and expenses for the Patriot cottages were incorrectly presented net on the consolidated statement of activities and cash and cash equivalents incorrectly included a certificate of deposit. Accordingly, the 2020 financial statements have been restated to correct these errors. Our opinion is not modified with respect to that matter.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Folds of Honor Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities of the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Folds of Honor Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Folds of Honor Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

*Eide Bailly LLP*

Tulsa, Oklahoma  
August 22, 2022

Folds of Honor Foundation  
Consolidated Statements of Financial Position  
December 31, 2021 and 2020

|  | 2021          | 2020<br>(Restated) |
|--|---------------|--------------------|
| <b>Assets</b>  |               |                    |
| Cash and cash equivalents                                  | \$ 46,199,283 | \$ 34,770,554      |
| Certificates of deposit                                    | 255,051       | 253,779            |
| Operating investments                                      | 13,979,138    | 6,226,300          |
| Accounts receivable  | 85,828        | 28,266             |
| Promises to give   | 386,407       | 244,803            |
| Prepaid expenses and other assets                          | 261,936       | 94,520             |
| Inventory  | 166,223       | 102,366            |
| Property and equipment, net                                | 5,702,766     | 3,973,068          |
| Interest in net assets of chapters                         | 4,972,470     | 3,157,279          |
| Beneficial interest in assets held by community foundation | 12,651        | 11,203             |
| Beneficial interest in perpetual trust                     | 1,011,962     | 983,767            |
| Total assets   | \$ 73,033,715 | \$ 49,845,905      |
| <b>Liabilities and Net Assets</b>                          |               |                    |
| Accounts payable   | \$ 65,606     | \$ 64,742          |
| Accrued expenses and other liabilities                     | 10,337,736    | 4,984,761          |
| Deferred revenue   | 27,371        | 27,372             |
| Total liabilities  | 10,430,713    | 5,076,875          |
| <b>Net Assets</b>  |               |                    |
| Without donor restrictions                                 |               |                    |
| Undesignated   | 54,738,498    | 38,877,155         |
| With donor restrictions                                    |               |                    |
| Purpose restrictions                                       | 6,466,135     | 4,663,305          |
| Time-restricted for future periods                         | 1,398,369     | 1,228,570          |
|  | 7,864,504     | 5,891,875          |
| Total net assets   | 62,603,002    | 44,769,030         |
| Total liabilities and net assets                           | \$ 73,033,715 | \$ 49,845,905      |

Folds of Honor Foundation  
Consolidated Statements of Activities  
Year Ended December 31, 2021

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|--|-------------------------------|----------------------------|---------------|
| Revenue, Support, and Gains  |                               |                            |               |
| Merchandise sales  | \$ 569,574                    | \$ -                       | \$ 569,574    |
| Less cost of goods sold  | (296,675)                     | -                          | (296,675)     |
| Net merchandise sales  | 272,899                       | -                          | 272,899       |
| Net investment return  | 487,215                       | -                          | 487,215       |
| Other revenue  | 240,636                       | -                          | 240,636       |
| Contributions  | 16,421,230                    | 667,407                    | 17,088,637    |
| In-kind contributions  | 577,196                       | -                          | 577,196       |
| Gross special events revenue   | 17,725,228                    | -                          | 17,725,228    |
| Less cost of direct benefits to donors   | (356,369)                     | -                          | (356,369)     |
| Net special events revenue   | 17,368,859                    | -                          | 17,368,859    |
| Distributions from and change in value of<br>beneficial interests in assets held by others | 1,448                         | 28,195                     | 29,643        |
| Change in interest in net assets of chapters   | -                             | 16,281,403                 | 16,281,403    |
| Net assets released from restrictions  | 15,004,376                    | (15,004,376)               | -             |
| Total revenue, support, and gains  | 50,373,859                    | 1,972,629                  | 52,346,488    |
| Expenses and Losses  |                               |                            |               |
| Program services expense   | 30,885,739                    | -                          | 30,885,739    |
| Supporting services expense  |                               |                            |               |
| Management and general   | 1,526,721                     | -                          | 1,526,721     |
| Fundraising and development  | 2,100,056                     | -                          | 2,100,056     |
| Total supporting services expenses   | 3,626,777                     | -                          | 3,626,777     |
| Total expenses and losses  | 34,512,516                    | -                          | 34,512,516    |
| Change in Net Assets   | 15,861,343                    | 1,972,629                  | 17,833,972    |
| Net Assets, Beginning of Year  | 38,877,155                    | 5,891,875                  | 44,769,030    |
| Net Assets, End of Year  | \$ 54,738,498                 | \$ 7,864,504               | \$ 62,603,002 |

Folds of Honor Foundation  
Consolidated Statements of Activities  
Year Ended December 31, 2020

|  | Without Donor<br>Restrictions<br>(Restated) | With Donor<br>Restrictions | Total<br>(Restated) |
|--|---|----------------------------|---------------------|
| Revenue, Support, and Gains  |   |                            |                     |
| Merchandise sales  | \$ 419,908                                  | \$ -                       | \$ 419,908          |
| Less cost of goods sold  | (209,691)                                   | -                          | (209,691)           |
| Net merchandise sales  | 210,217                                     | -                          | 210,217             |
| Net investment return  | 398,772                                     | -                          | 398,772             |
| Other revenue  | 212,020                                     | -                          | 212,020             |
| Contributions  | 10,452,374                                  | 532,798                    | 10,985,172          |
| Contribution - SBA PPP loan forgiveness  | 859,800                                     | -                          | 859,800             |
| In-kind contributions  | 293,300                                     | -                          | 293,300             |
| Gross special events revenue   | 17,747,994                                  | -                          | 17,747,994          |
| Less cost of direct benefits to donors   | (376,872)                                   | -                          | (376,872)           |
| Net special events revenue   | 17,371,122                                  | -                          | 17,371,122          |
| Distributions from and change in value of<br>beneficial interests in assets held by others | 32,986                                      | 51,834                     | 84,820              |
| Change in interest in net assets of chapters   | -   | 7,336,479                  | 7,336,479           |
| Net assets released from restrictions  | 7,382,561                                   | (7,382,561)                | -                   |
| Total revenue, support, and gains  | 37,213,152                                  | 538,550                    | 37,751,702          |
| Expenses and Losses  |   |                            |                     |
| Program services expense   | 26,335,546                                  | -                          | 26,335,546          |
| Supporting services expense  |   |                            |                     |
| Management and general   | 1,272,451                                   | -                          | 1,272,451           |
| Fundraising and development  | 1,465,499                                   | -                          | 1,465,499           |
| Total supporting services expenses   | 2,737,950                                   | -                          | 2,737,950           |
| Total expenses and losses  | 29,073,496                                  | -                          | 29,073,496          |
| Change in Net Assets   | 8,139,656                                   | 538,550                    | 8,678,206           |
| Net Assets, Beginning of Year  | 30,737,499                                  | 5,353,325                  | 36,090,824          |
| Net Assets, End of Year  | \$ 38,877,155                               | \$ 5,891,875               | \$ 44,769,030       |



**Folds of Honor Foundation**  
**Consolidated Statements of Functional Expenses**  
**Year Ended December 31, 2021**

|   | Program<br>Services  | Management<br>and General | Fundraising and<br>Development | Cost of Direct<br>Benefit to Donors | Total                |
|---|----------------------|---------------------------|--------------------------------|-------------------------------------|----------------------|
| Scholarships  | \$ 23,689,196        | \$ -                      | \$ -                           | \$ -                                | \$ 23,689,196        |
| Salaries and wages  | 3,170,543            | 631,880                   | 420,723                        | -                                   | 4,223,146            |
| Advertising   | 1,005,300            | -                         | 670,200                        | -                                   | 1,675,500            |
| Employee benefits   | 734,782              | 101,369                   | 56,726                         | -                                   | 892,877              |
| Travel and training   | 442,051              | -                         | 53,210                         | -                                   | 495,261              |
| Receptions and events   | 415,487              | 83,097                    | 358,097                        | 356,369                             | 1,213,050            |
| Payroll taxes   | 259,680              | 30,551                    | 15,275                         | -                                   | 305,506              |
| Communications  | 243,941              | 8,402                     | 140,222                        | -                                   | 392,565              |
| Information technology  | 192,574              | 59,254                    | 44,440                         | -                                   | 296,268              |
| Promotional expense   | 178,858              | 107,315                   | 71,543                         | -                                   | 357,716              |
| Other   | 169,430              | 101,934                   | 67,932                         | -                                   | 339,296              |
| Postage and printing  | 133,655              | 43,872                    | 23,745                         | -                                   | 201,272              |
| Depreciation and amortization   | 87,056               | 52,234                    | 34,822                         | -                                   | 174,112              |
| Insurance   | 74,115               | 14,823                    | 9,882                          | -                                   | 98,820               |
| Professional services   | 47,676               | 59,595                    | 11,919                         | -                                   | 119,190              |
| Occupancy   | 25,351               | 5,070                     | 3,380                          | -                                   | 33,801               |
| Equipment rental and maintenance  | 10,001               | 2,000                     | 1,333                          | -                                   | 13,334               |
| Security  | 6,043                | 1,008                     | 3,023                          | -                                   | 10,074               |
| Bank charges  | -                    | 113,584                   | 113,584                        | -                                   | 227,168              |
| Cost of goods sold  | -                    | -                         | 296,675                        | -                                   | 296,675              |
| Cottage operating expenses  | -                    | 110,733                   | -                              | -                                   | 110,733              |
|   | <u>30,885,739</u>    | <u>1,526,721</u>          | <u>2,396,731</u>               | <u>356,369</u>                      | <u>35,165,560</u>    |
| Less expenses included with revenues on<br>the consolidated statement of activities                 |                      |                           |                                |                                     |                      |
| Cost of goods sold  | -                    | -                         | (296,675)                      | -                                   | (296,675)            |
| Cost of direct benefits to donors   | -                    | -                         | -                              | (356,369)                           | (356,369)            |
| Total expenses included in the<br>expense section on the<br>consolidated statement<br>of activities | <u>\$ 30,885,739</u> | <u>\$ 1,526,721</u>       | <u>\$ 2,100,056</u>            | <u>\$ -</u>                         | <u>\$ 34,512,516</u> |

**Folds of Honor Foundation**  
**Consolidated Statements of Functional Expenses**  
**Year Ended December 31, 2020**

|   | Program<br>Services<br>(restated) | Management<br>and General<br>(restated) | Fundraising and<br>Development<br>(restated) | Cost of Direct<br>Benefit to Donors<br>(restated) | Total<br>(restated)  |
|---|-----------------------------------|---|--|---|----------------------|
| Scholarships  | \$ 20,837,418                     | \$ -                                    | \$ -   | \$ -  | \$ 20,837,418        |
| Salaries and wages  | 3,042,582                         | 605,547                                 | 402,992                                      | -   | 4,051,121            |
| Employee benefits   | 618,456                           | 108,378                                 | 68,605                                       | -   | 795,439              |
| Receptions and events   | 153,742                           | 30,748                                  | 307,278                                      | 376,872   | 868,640              |
| Advertising   | 300,062                           | -                                       | 200,042                                      | -   | 500,104              |
| Communications  | 203,300                           | 5,222                                   | 121,608                                      | -   | 330,130              |
| Payroll taxes   | 260,254                           | 30,618                                  | 15,309                                       | -   | 306,181              |
| Information technology  | 182,935                           | 56,288                                  | 42,216                                       | -   | 281,439              |
| Other   | 116,815                           | 69,756                                  | 46,533                                       | -   | 233,104              |
| Postage and printing  | 148,864                           | 52,123                                  | 29,113                                       | -   | 230,100              |
| Travel and training   | 139,628                           | -                                       | 53,053                                       | -   | 192,681              |
| Bank charges  | -                                 | 85,268                                  | 85,268                                       | -   | 170,536              |
| Depreciation and amortization   | 82,435                            | 49,461                                  | 32,974                                       | -   | 164,870              |
| Promotional expense   | 72,690                            | 43,614                                  | 29,076                                       | -   | 145,380              |
| Professional services   | 47,423                            | 59,279                                  | 11,856                                       | -   | 118,558              |
| Occupancy   | 60,274                            | 12,055                                  | 8,036  | -   | 80,365               |
| Insurance   | 41,149                            | 8,229                                   | 5,487  | -   | 54,865               |
| Cost of goods sold  | -                                 | -                                       | 209,691                                      | -   | 209,691              |
| Cottage operating expenses  | -                                 | 49,968                                  | -  | -   | 49,968               |
| Equipment rental and maintenance  | 17,179                            | 3,436                                   | 2,290  | -   | 22,905               |
| Security  | 5,115                             | 853                                     | 2,558  | -   | 8,526                |
| Legal fees  | 5,225                             | 1,608                                   | 1,205  | -   | 8,038                |
|   | <u>26,335,546</u>                 | <u>1,272,451</u>                        | <u>1,675,190</u>                             | <u>376,872</u>                                    | <u>29,660,059</u>    |
| Less expenses included with revenues on<br>the consolidated statement of activities                 |                                   |   |  |   |                      |
| Cost of goods sold  | -                                 | -                                       | (209,691)                                    | -   | (209,691)            |
| Cost of direct benefits to donors   | -                                 | -                                       | -  | (376,872)   | (376,872)            |
| Total expenses included in the<br>expense section on the<br>consolidated statement<br>of activities | <u>\$ 26,335,546</u>              | <u>\$ 1,272,451</u>                     | <u>\$ 1,465,499</u>                          | <u>\$ -</u>                                       | <u>\$ 29,073,496</u> |

Folds of Honor Foundation  
Consolidated Statements of Cash Flow  
Year Ended December 31, 2021 and 2020

|   | 2021          | 2020<br>(Restated) |
|---|---------------|--------------------|
| Reconciliation of Change in Net Assets to Net Cash from Operating Activities        |               |                    |
| Change in net assets  | \$ 17,833,972 | \$ 8,678,206       |
| Adjustments to reconcile change in net assets to net cash from operating activities |               |                    |
| Depreciation and amortization   | 174,112       | 164,870            |
| Interest income on certificates of deposit  | (1,272)       | (3,779)            |
| Realized and unrealized gain on operating investments                               | (382,901)     | (158,348)          |
| Change in beneficial interests in assets held by others                             | (29,444)      | (64,166)           |
| Change in interest in net assets of chapters  | (16,281,403)  | (7,336,479)        |
| Changes in operating assets and liabilities   |               |                    |
| Accounts receivable   | (57,562)      | (15,543)           |
| Promises to give  | (141,604)     | 43,197             |
| Prepaid expenses and other assets   | (167,416)     | 32,926             |
| Inventories   | (63,857)      | 9,893              |
| Accounts payable  | 864           | (219,274)          |
| Accrued expenses and other liabilities  | 5,352,975     | (1,032,151)        |
| Deferred revenue  | (1)           | (9,485)            |
| Net Cash from Operating Activities  | 6,236,463     | 89,867             |
| Investing Activities  |               |                    |
| Purchases of operating investments  | (7,369,937)   | (5,338,805)        |
| Purchases of certificates of deposit  | -             | (250,000)          |
| Redemption of certificates of deposit   | -             | 150,000            |
| Additions to beneficial interests in assets held by others                          | (199)         | (20,654)           |
| Proceeds received from beneficial interests in assets held by others                | -             | 1,325,290          |
| Purchases of property and equipment   | (1,903,810)   | (535,060)          |
| Contributions received from chapters  | 14,466,212    | 7,040,988          |
| Net Cash from Investing Activities  | 5,192,266     | 2,371,759          |
| Net Change in Cash and Cash Equivalents   | 11,428,729    | 2,461,626          |
| Cash and Cash Equivalents, Beginning of Year  | 34,770,554    | 32,308,928         |
| Cash and Cash Equivalents, End of Year  | \$ 46,199,283 | \$ 34,770,554      |

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Folds of Honor Foundation (the Foundation), is a nonprofit organization established in May 2007 to provide financial assistance for the education of spouses and dependent children of service men/women who are either killed or permanently disabled while serving and defending our great nation. As of December 31, 2021, the Foundation has awarded approximately 34,300 scholarships to help defray educational expenses, including tuition and fees, books, instructional supplies and equipment, and room and board. It is expected the Foundation will award another 9,000 scholarships for the upcoming school year.

### **Principals of Consolidation**

The consolidated financial statements include the accounts of the Folds of Honor Foundation, FHF Honor Cottage, LLC (Honor Cottage), and The Patriot Cottages, LLC, because the Foundation has both control and economic interests in the cottages. All significant intercompany accounts have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Foundation.

### **Cash and Cash Equivalents**

All cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes are considered, to be cash and cash equivalents.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for cottage rentals. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2021 and 2020, no allowance was considered necessary.

### **Promises to Give**

The Foundation records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2021 and 2020, no allowance was considered necessary.

### **Inventory**

Inventory is comprised of program-related merchandise held for sale by the Foundation and is stated at the lower of cost or net realizable value determined by the first-in first-out method. The Foundation has determined that an allowance for inventory obsolescence was not warranted at December 31, 2021 and 2020.

### **Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2021 and 2020.

### **Beneficial Interest in Assets Held by Community Foundation**

The Foundation established a reserve endowment fund (the Fund) under Tulsa Community Foundation's (TCF) Non-profit Preservation Endowment Challenge Grant program and named itself beneficiary. The Foundation granted variance power to TCF which allows TCF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of TCF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by TCF for the benefit of the Foundation and is reported at fair value in the consolidated statement of financial position, with trust distributions and changes in fair value recognized in the consolidated statement of activities.

### **Beneficial Interest in Perpetual Trust**

The Foundation has been named as an irrevocable beneficiary of a perpetual trust held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Foundation; however, the Foundation will never receive the assets of the trusts. At the date the Foundation receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the consolidated statements of activities and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

As discussed in Note 9, prior to 2020, the Foundation received a beneficial interest in a perpetual purpose trust from the Domroe, Edith & Alvin Foundation, which was not recorded in the consolidated financial statements. The Folds of Honor Foundation is beneficiary of 18.18% of the trust. The Trust Estate includes cash, securities, or other income producing property. Distributions of earned income from the Trust will be made at least annually. The Trust is held, controlled and invested by the Trustee, Seacoast Nation Bank, for the benefit of the beneficiaries and the Foundation's beneficial interest in the perpetual trust is reported at fair value in the consolidated statement of financial position, with trust distributions and changes in fair value recognized in the consolidated statement of activities.

### **Interest in Chapters**

In the past few years, various chapters have been established to raise money for the benefit of the Foundation. There were 30 such chapters at December 31, 2021. Since the Foundation has influence over and an ongoing economic interest in its chapters, the Foundation has recorded an interest in the net assets of the various chapters. Changes in the net assets of the chapters are recorded in the Foundation's consolidated statement of activities. Distributions received from the chapters are recorded as reductions in the interest in the net assets of chapters and are generally restricted for scholarships. Since the Foundation has limited influence over the amount and timing of distributions and the chapters may impose additional restrictions on certain contributions made to chapters by donors, the net assets of the chapters are reflected as donor-restricted until the distributions are made to the Foundation and any purpose restrictions are satisfied.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Net investment return (loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. Merchandise sales are generally recognized at the time of purchase. The Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

Advance payments for cottage rentals are recorded as deferred revenue when received, and as revenue when earned.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received.

### **Advertising Costs**

Advertising costs are expensed as incurred. For the years ended December 31, 2021 and 2020, such costs approximated \$1,675,500 and \$500,000, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. With the exception of scholarships for which no allocation is required, most expenses are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. Additionally, the Foundation utilizes an Insured Cash Sweep service (ICS) and a Certificate of Deposit Account Registry Service (CDARS) that allocates deposits to financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) in increments below the FDIC insured maximum amount. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals and foundations supportive of the Foundation's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

### **Subsequent Events**

Subsequent events have been evaluated through August 22, 2022, which is the date the consolidated financial statements were available to be issued.



**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

|                           | 2021          | 2020          |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 46,199,283 | \$ 34,770,554 |
| Certificates of deposit   | 255,051       | 253,779       |
| Operating investments     | 13,979,138    | 6,226,300     |
| Accounts receivable       | 85,828        | 28,266        |
| Promises to give          | 386,407       | 244,803       |
|                           | \$ 60,905,707 | \$ 41,523,702 |

**Note 3 - Fair Value Measurements and Disclosures**

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds or corporate bonds with readily determinable fair values based on daily redemption values. The fair value of the Foundation's beneficial interest in assets held by community foundation is based on the fair value of the underlying fund investments as reported by community foundation. These are considered to be Level 2 measurements. The fair value of beneficial interest in perpetual trust is determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustee. These are considered Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2021:

| <u>Assets</u>  | <u>Total</u>         | <u>Quoted<br/>Prices in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|--|----------------------|---|--|--|
| Short-term investments   |                      |   |  |  |
| Fixed income funds-corporate bonds                             | \$ 12,027,394        | \$ 12,027,394   | \$ -   | \$ -   |
| Equity funds   | 1,951,744            | 1,951,744   | -  | -  |
|  | <u>\$ 13,979,138</u> | <u>\$ 13,979,138</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Beneficial interests in assets held by<br>Community Foundation | \$ 12,651            | \$ -  | \$ 12,651  | \$ -   |
| Beneficial interest in perpetual trust                         | 1,011,962            | -   | -  | 1,011,962  |
|  | <u>\$ 1,024,613</u>  | <u>\$ -</u>   | <u>\$ 12,651</u>   | <u>\$ 1,011,962</u>  |

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2020:

| <u>Assets</u>  | <u>Total</u>        | <u>Quoted<br/>Prices in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|--|---------------------|---|--|--|
| Short-term investments   |                     |   |  |  |
| Fixed income funds-corporate bonds                             | \$ 5,000,000        | \$ 5,000,000  | \$ -   | \$ -   |
| Equity funds   | <u>1,226,300</u>    | <u>1,226,300</u>  | <u>-</u>   | <u>-</u>   |
|  | <u>\$ 6,226,300</u> | <u>\$ 6,226,300</u>   | <u>\$ -</u>  | <u>\$ -</u>  |
| Beneficial interests in assets held by<br>Community Foundation | \$ 11,203           | \$ -  | \$ 11,203  | \$ -   |
| Beneficial interest in perpetual trust                         | <u>983,767</u>      | <u>-</u>  | <u>-</u>   | <u>983,767</u>   |
|  | <u>\$ 994,970</u>   | <u>\$ -</u>   | <u>\$ 11,203</u>   | <u>\$ 983,767</u>  |

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2021 and 2020:

|                                  |   |
|----------------------------------|---|
|                                  | <u>Beneficial<br/>Interest in<br/>Perpetual Trust</u> |
| Balance at December 31, 2019     | \$ 931,933  |
| Net realized and unrealized gain | <u>51,834</u>   |
| Balance at December 31, 2020     | <u>983,767</u>  |
| Net realized and unrealized gain | <u>28,195</u>   |
| Balance at December 31, 2021     | <u>\$ 1,011,962</u>                                   |

#### Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected within one year at December 31, 2021 and 2020.

At December 31, 2021, three donors accounted for 86% of total promises to give. At December 31, 2020, another donor accounted for 61% of total promises to give.

**Note 5 - Property and Equipment**

Property and equipment consists of the following at December 31, 2021 and 2020:

|                               | 2021         | 2020         |
|-------------------------------|--------------|--------------|
| Land                          | \$ 1,068,223 | \$ 1,068,223 |
| Land improvements             | 1,068,917    | 176,236      |
| Buildings and improvements    | 2,635,398    | 2,596,172    |
| Office equipment              | 477,890      | 328,722      |
| Furniture and fixtures        | 960,898      | 950,711      |
| Construction in progress      | 1,247,393    | 464,025      |
|                               | 7,458,719    | 5,584,089    |
| Less accumulated depreciation | (1,755,953)  | (1,611,021)  |
|                               | \$ 5,702,766 | \$ 3,973,068 |

The Foundation began construction on a new headquarters building in 2020. Total costs expended during 2021 and 2020, were approximately \$564,000 and \$267,000, respectively. Total costs for the building are estimated to be approximately \$3,000,000. The Foundation has entered into agreements with certain vendors related to the construction of the new headquarters building and other facilities.

**Note 6 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods:

|  | 2021         | 2020         |
|--|--------------|--------------|
| Subject to Expenditure for Specified Purpose   |              |              |
| Restricted real estate   | \$ 1,082,665 | \$ 1,083,031 |
| Restricted for scholarships  | 411,000      | 422,995      |
| Time-based and primarily restricted for scholarships:  |              |              |
| Interest in net assets of chapters   | 4,972,470    | 3,157,279    |
|  | 6,466,135    | 4,663,305    |
| Subject to the Passage of Time   |              |              |
| Beneficial interest in perpetual trust   | 1,011,962    | 983,767      |
| Promises to give that are not restricted by donors,<br>but which are unavailable for expenditure until due | 386,407      | 244,803      |
|  | \$ 7,864,504 | \$ 5,891,875 |

Land was donated during the year ended December 31, 2009, for the express purpose of building the Foundation's headquarters. The headquarters must be used for a nonprofit purpose for 20 years from the date of donation or the land will revert to the donor. Due to the nature of the restriction, the land and all assets constructed and affixed to it are reported as net assets restricted by donors.

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 the donors as follows for the years ended December 31, 2021 and 2020:

|  | 2021          | 2020         |
|--|---------------|--------------|
| Expiration of time restrictions                | \$ 537,798    | \$ 288,000   |
| Restricted purpose distributions from chapters | 14,466,212    | 7,040,988    |
| Depreciation of restricted real estate         | 366           | 31,073       |
| Satisfaction of purpose restrictions           |               |              |
| Scholarships                                   | -             | 22,500       |
|  | \$ 15,004,376 | \$ 7,382,561 |

## Note 7 - Employee Benefits

### Defined Contribution Plan

The Foundation sponsors a tax-deferred annuity plan (the Plan) qualified under Section 403(b) covering substantially all full-time employees. The plan provides that employees who have attained the age of 21 can voluntarily contribute a percentage of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the years ended December 31, 2021 and 2020, the Foundation contributed \$241,635 and \$218,767, respectively, to the plan.

### Deferred Compensation Agreement

The Foundation entered into a long-term incentive compensation arrangement with an executive of the Foundation. The executive has the opportunity to earn up to \$80,000 annually for five years, which rolls annually and includes a five-year vesting period. Included in accrued expenses and other liabilities on the consolidated statements of financial position are \$480,000 and \$450,000 as of December 31, 2021 and 2020, respectively, related to this agreement.

**Note 8 - Related Party Transactions**

During the years ended December 31, 2021 and 2020, the Foundation paid expenses for the Patriot Cup fundraising event to the Patriot Golf Course, an entity related through common management, totaling \$133,489 and \$0, respectively. Noted the Patriot Cup fundraising event was not held during 2020. The Foundation also paid the Patriot Golf Course approximately \$71,000 and \$61,000 in 2021 and 2020, respectively, for security services, maintenance, grill, promotional materials, and certain other shared services.

The chief executive officer has an interest in the American Dunes LLC located in Grand Haven, Michigan. The mission of American Dunes is to raise awareness and funds to benefit Folds of Honor. American Dunes LLC received no funds for the construction of the golf course and receives no funds for operations. Folds of Honor was given permission to build a Folds of Honor Memorial at the entrance of American Dunes. The memorial was funded by restricted donations. The memorial utilized no general donations from Folds of Honor. Amounts spent for the construction in 2021 and 2020, totaled approximately \$797,00 and \$95,000, respectively, with the total expenditures for the construction to be approximately \$1,000,000. The memorial opened in May 2021 and the remaining construction items are expected to be complete in 2022.

Due to extraordinary travel demands, the chief executive officer sometimes uses his personal single engine airplane for air travel required for Foundation business. The Foundation reimburses such travel based on IRS standard rates.

**Note 9 - Restatement**

During the year ended December 31, 2020, the Foundation identified a misstatement within the 2020 financial statements related to a beneficial interest in perpetual trust that was not recorded on the consolidated statement of financial position. As a result, the Foundation restated its previously issued consolidated financial statements to appropriately reflect the beneficial interest in perpetual trust and net assets with donor restrictions for the year ended December 31, 2020 and as of December 31, 2019.

Additionally, it was determined that the revenues and expenses for the Honor Cottage and the Patriot Cottages should not be presented net on the consolidated statement of activities. The Foundation identified a certificate of deposit that was incorrectly included in cash and cash equivalents as of December 31, 2020, which should have been presented separately on the consolidated statement of financial position. Management has corrected these errors. The impact to the previously issued 2020 financials is as follows:

|  | As Previously<br>Reported | Restatement  | As Restated   |
|--|---------------------------|--------------|---------------|
| <b>Consolidated Statements of Financial Position</b>   |                           |              |               |
| Cash and cash equivalents  | \$ 35,024,333             | \$ (253,779) | \$ 34,770,554 |
| Certificates of deposit  | -                         | 253,779      | 253,779       |
| Beneficial interest in assets held in perpetual trust  | -                         | 983,767      | 983,767       |
| Total assets   | 48,862,138                | 983,767      | 49,845,905    |
| Net assets with donor restrictions   |                           |              |               |
| time-restricted for future periods   | 244,803                   | 983,767      | 1,228,570     |
| Net assets with donor restrictions   | 4,908,108                 | 983,767      | 5,891,875     |
| Total net assets   | 43,785,263                | 983,767      | 44,769,030    |
| Total liabilities and net assets   | 48,862,138                | 983,767      | 49,845,905    |
| <b>Consolidated Statements of Activities</b>   |                           |              |               |
| Other revenue  | 87,574                    | 124,446      | 212,020       |
| Distributions from and change in value of<br>beneficial interest in assets held by others<br>with donor restrictions | -                         | 51,834       | 51,834        |
| Total revenue, support and gains<br>without restrictions   | 37,088,706                | 124,446      | 37,213,152    |
| Total revenue, support and gains<br>with restrictions  | 486,716                   | 51,834       | 538,550       |
| Fundraising and development  | 1,341,053                 | 124,446      | 1,465,499     |
| Total supporting expenses  | 2,613,504                 | 124,446      | 2,737,950     |
| Total expenses and losses  | 28,949,050                | 124,446      | 29,073,496    |
| Change in net assets total   | 8,626,372                 | 51,834       | 8,678,206     |
| Net Assets, beginning of year  | 35,158,891                | 931,933      | 36,090,824    |
| Net Assets, end of year total  | 43,785,263                | 983,767      | 44,769,030    |

Folds of Honor Foundation  
Notes to Consolidated Financial Statements  
December 31, 2021 and 2020

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|  | <u>As Previously<br/>Reported</u> | <u>Restatement</u> | <u>As Restated</u> |
|--|-----------------------------------|--------------------|--------------------|
| <b>Consolidated Statements of Functional Expenses</b>                                      |                                   |                    |                    |
| Receptions and events  | \$ 744,194                        | \$ 124,446         | \$ 868,640         |
| Total expenses   | 29,325,922                        | 334,137            | 29,660,059         |
| Total expenses included in the expense section on the consolidated statement of activities | 28,949,050                        | 124,446            | 29,073,496         |
| <b>Consolidated Statements of Cash Flow</b>  |                                   |                    |                    |
| Change in net assets   | 8,626,372                         | 51,834             | 8,678,206          |
| Interest income on certificates of deposit   | -                                 | (3,779)            | (3,779)            |
| Net cash from operating activities   | 93,646                            | (3,779)            | 89,867             |
| Change in beneficial interests in assets held by others                                    | (12,332)                          | (51,834)           | (64,166)           |
| Purchase of certificates of deposit  | -                                 | (250,000)          | (250,000)          |
| Net cash from investing activities   | 2,621,759                         | (250,000)          | 2,371,759          |
| Net change in cash and cash equivalents  | 2,715,405                         | (253,779)          | 2,461,626          |
| Cash and cash equivalents, end of the year   | 35,024,333                        | (253,779)          | 34,770,554         |