

VETERANS OF FOREIGN WARS FOUNDATION

FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022
AND INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

Board of Directors of Veterans of Foreign Wars Foundation
Kansas City, Missouri

Opinion

We have audited the accompanying financial statements of Veterans of Foreign Wars Foundation, which comprise the statement of financial position as of August 31, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Veterans of Foreign Wars Foundation as of August 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Veterans of Foreign Wars 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.

Prior Period Financial Statements

The financial statements of Veterans of Foreign Wars Foundation as of August 31, 2022, were audited by other auditors whose report dated December 22, 2022, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Veterans of Foreign Wars Foundation has adopted the provisions of Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, effective September 1, 2022. Adoption of this standard has had a material effect on the presentation and disclosures in the financial statements for the year ended August 31, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

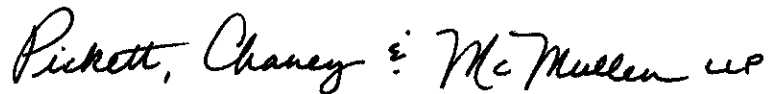
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 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 Veterans of Foreign Wars 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Veterans of Foreign Wars 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.



Overland Park, Kansas
November 30, 2023

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENTS OF FINANCIAL POSITION AUGUST 31, 2023 AND 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 8,887,256	\$ 2,583,460
Investments	9,898,512	14,675,252
Receivables:		
Accounts receivable		6,806
Pledges receivable	43,351	350,000
Accrued interest receivable		32,599
Total receivables	<u>43,351</u>	<u>389,405</u>
Prepaid expenses	9,411	177,418
Operating lease right of use asset	42,470	
Furniture, fixtures and equipment, net	<u>22,417</u>	<u>40,789</u>
TOTAL ASSETS	<u>\$ 18,903,417</u>	<u>\$ 17,866,324</u>
LIABILITIES AND NET ASSETS		
Accounts payable and other liabilities	\$ 322,761	\$ 348,431
Operating lease liability	<u>42,470</u>	
Total liabilities	365,231	348,431
NET ASSETS:		
Without donor restrictions:	12,984,731	12,073,161
With donor restrictions	<u>5,553,455</u>	<u>5,444,732</u>
Total net assets	<u>18,538,186</u>	<u>17,517,893</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,903,417</u>	<u>\$ 17,866,324</u>

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED AUGUST 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Contributions and gifts	\$ 2,719,407	\$ 2,078,372	\$ 4,797,779
Investment return, net	1,018,252		1,018,252
Net assets released from restrictions	1,969,649	(1,969,649)	-
Total revenue and support	5,707,308	108,723	5,816,031
EXPENSES:			
Program services:			
Veterans service activities	2,868,978		2,868,978
Community service and public awareness	777,516		777,516
Total program services	3,646,494		3,646,494
Supporting services:			
Management and general activities	482,842		482,842
Fundraising	666,402		666,402
Total supporting services	1,149,244		1,149,244
Total expenses	4,795,738		4,795,738
CHANGE IN NET ASSETS	911,570	108,723	1,020,293
NET ASSETS, BEGINNING OF YEAR	12,073,161	5,444,732	17,517,893
NET ASSETS, END OF YEAR	\$ 12,984,731	\$ 5,553,455	\$ 18,538,186

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED AUGUST 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Contributions and gifts	\$ 2,818,689	\$ 1,682,030	\$ 4,500,719
Investment return, net	(1,829,002)		(1,829,002)
Net assets released from restrictions	1,741,577	(1,741,577)	
Total revenue and support	2,731,264	(59,547)	2,671,717
EXPENSES:			
Program services:			
Veterans service activities	2,562,038		2,562,038
Community service and public awareness	1,034,683		1,034,683
Total program services	3,596,721	-	3,596,721
Supporting services:			
Management and general activities	585,165		585,165
Fundraising	598,246		598,246
Total supporting services	1,183,411	-	1,183,411
Total expenses	4,780,132	-	4,780,132
CHANGE IN NET ASSETS	(2,048,868)	(59,547)	(2,108,415)
NET ASSETS, BEGINNING OF YEAR	14,122,029	5,504,279	19,626,308
NET ASSETS, END OF YEAR	\$ 12,073,161	\$ 5,444,732	\$ 17,517,893

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2023

	Program Activities		Supporting Services		Total
	Veterans Service Activities	Community Service and Public Awareness	Management and General Activities	Fundraising Activities	
Salaries and employee benefits	\$ 100,439	\$ 94,345	\$ 295,453	\$ 333,094	\$ 823,331
Travel	24,137	6,034		30,172	60,343
Office expenses	6,831	6,416	37,562	46,481	97,290
Professional services			127,727	63,402	191,129
Depreciation	2,241	2,105	6,593	7,433	18,372
Occupancy	5,271	4,952	15,507	17,482	43,212
Grants and other assistance	610,059				610,059
Grants to affiliates	2,120,000	500,000			2,620,000
Advertising and promotion		163,664		168,338	332,002
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,868,978</u>	<u>\$ 777,516</u>	<u>\$ 482,842</u>	<u>\$ 666,402</u>	<u>\$ 4,795,738</u>

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2022

	Program		Supporting Services		Total
	Veterans Service Activities	Community Service and Public Awareness	Management and General Activities	Fundraising Activities	
Salaries and employment benefits	\$ 91,168	\$ 100,257	\$ 283,310	\$ 272,502	\$ 747,237
Travel	26,522	6,631		33,153	66,306
Office expenses	10,339	14,668	51,062	60,925	136,994
Professional services	23,000	10,500	227,973	49,549	311,022
Depreciation	2,071	2,278	6,436	6,190	16,975
Occupancy	5,271	5,798	16,384	15,759	43,212
Grants and other assistance	483,529				483,529
Grants to affiliates	1,920,138	775,000			2,695,138
Advertising and promotion		119,551		160,168	279,719
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,562,038</u>	<u>\$ 1,034,683</u>	<u>\$ 585,165</u>	<u>\$ 598,246</u>	<u>\$ 4,780,132</u>

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,020,293	\$ (2,108,415)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Change in market value of investments	(632,491)	2,057,109
Depreciation	18,372	16,975
Changes in:		
Receivables	346,054	1,028,964
Prepaid expenses	168,007	2,223
Accounts payable and other liabilities	<u>(25,670)</u>	<u>(29,151)</u>
Net cash provided by operating activities	894,565	967,705
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(11,239)
Purchases of investments	(27,225,745)	(3,651,309)
Proceeds from sales or maturities of investments	<u>32,634,976</u>	<u>3,648,483</u>
Net cash provided by (used in) investing activities	<u>5,409,231</u>	<u>(14,065)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	6,303,796	953,640
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,583,460</u>	<u>1,629,820</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 8,887,256</u>	<u>\$ 2,583,460</u>
SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION:		
Cash paid for income taxes and interest	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

VETERANS OF FOREIGN WARS FOUNDATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

1. DESCRIPTION OF THE ORGANIZATION

Nature of Activities – Veterans of Foreign Wars Foundation (the “Foundation”), an affiliate of the Veterans of Foreign Wars of the United States (the “VFW”), was formed in 1996 as a public benefit corporation under the Missouri Benefit Corporation Act and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) as a charitable foundation.

The Foundation was formed to assist disabled veterans and families; assist veterans with respect to employment; promote public attention to the sacrifices and needs of veterans and active and reserve military personnel and their families; and promote and assist in funding programs sponsored by the VFW, its affiliates, and other nonprofit groups. This mission is accomplished through the Foundation’s two main programmatic activities:

Veterans Service Activities – The Foundation provides financial support to veterans and their families experiencing financial hardship by providing grants to assist with mortgages, car loans and repairs, utilities, and other payments. The Foundation also provides scholarships to veterans or current military personnel with a rank of E-5 or below to assist them with reaching their educational goals. Additionally, the Foundation provides grants to support VFW Service Officers. These officers play a key role in assisting veterans dealing with the Department of Veterans Affairs and other agencies.

Community Service and Public Awareness – These activities support programs that foster patriotism, community improvement, and youth development programs. The Foundation accomplishes this by providing grants that are used to support VFW Posts and Auxiliaries with outreach projects in their respective communities, so the VFW can continue to be a resource in their local communities. Additionally, the Foundation brings awareness for the mission and programs of the VFW and Foundations support of veterans and their families.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, resources are classified for accounting and financial purposes into categories established according to their nature and purposes. The net assets of the Foundation are reported in two categories as follows:

Without donor restrictions: These are resources that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.

With donor restrictions: These are resources whose use by the Foundation is limited by donor imposed restrictions that either expire by the passage of time, can be fulfilled by actions of the Foundation or include a stipulation that assets be retained and invested in perpetuity while permitting the Foundation to use all or part of the investment return on these assets for specified or unspecified purposes. The Foundation has no perpetually restricted net assets.

Adoption of Accounting Standards – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the most significant change from the previous guidance is the requirement to recognize the right-of-use (“ROU”) lease assets and lease liabilities on the Statements of Financial Position for leases classified as operating leases. The standard also requires

disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Foundation adopted the new guidance effective September 1, 2022.

Cash and Cash Equivalents – The Foundation considers all unrestricted, highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash and money market accounts. The Foundation places its temporary cash investments with high-credit-quality financial institutions. The Foundation held cash equivalents consisting of money market funds of \$6,572,674 and \$749,164 as of August 31, 2023 and 2022, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents. Management evaluates the financial stability of these financial institutions and considers the risk to be minimal.

Investment Valuation and Income Recognition – The Foundation's Investments are carried at fair value. Investment return, which includes interest and dividends and realized and unrealized gains and losses, is included in the statements of activities and changes in net assets. Investment expenses, such as custodial fees, investment advisory fees and direct internal investment expenses are netted against investment return. Fair values are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The Foundation invests primarily in securities and mutual funds which hold various securities, including U.S. government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Foundation applies the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), with respect to financial and non-financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to all financial instruments that are being measured and reported on a fair-value basis and items disclosed at fair value in the notes to the financial statements.

The carrying amounts of cash equivalents are a reasonable estimate of their fair values because of their highly liquid status and short maturities. The carrying amounts of receivables and accounts payable are a reasonable estimate of their fair values because of their short-term nature. The carrying amounts of investments are a reasonable estimate of fair value, which is generally determined based on quoted prices in active markets for identical assets.

Receivables – Accrued interest receivable is related to the investment income the Foundation has earned on its portfolio but not yet received. Unconditional pledges received are recorded at net realizable value. Conditional pledges receivable are not recognized until they become unconditional, that is, when the conditions on which they depend are met.

Furniture, Fixtures and Equipment – Furniture, fixtures and equipment (with a purchase price of \$1,000 or more) are valued at cost, and depreciated over their estimated useful lives of the assets using the straight-line method. Useful lives range from three to five years.

Long-Lived Assets – Management periodically reviews long-lived assets for impairment relating to events or changes in circumstances that would indicate that the carrying amount of an asset may not be recoverable. In the event a long-lived asset was determined to be impaired, such asset would be required to be written down to its fair value, with the loss recognized in the statement of activities and changes in net assets. There has been no indication of impairment of long-lived assets as of August 31, 2023 and 2022.

Leases – The Foundation applies Accounting Standards Codification (“ASC”) 842, *Leases*, in determining whether an arrangement is or contains a lease at the lease inception. An arrangement is considered to include a lease if it conveys the right to control the use of identified property, plant or equipment for a period

of time in excess of twelve months in exchange for consideration. The Foundation defines control of the asset as the right to obtain substantially all of the economic benefits from use of the identified asset as well as the right to direct the use of the identified asset. ROU assets represent the Foundation's right to use leased assets over the term of the lease. Lease liabilities represent the Foundation's contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted by any deferred rent liability and lease incentives. ROU assets and lease liabilities are recognized at the lease commencement date. The Foundation uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Foundation has elected to use the risk-free interest rate at the lease commencement date to determine the present value of the future lease payments.

Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense for operating leases is recognized on a straight-line basis over the lease term. As part of the transition to ASC 842, the Foundation uses the modified retrospective approach to measure and recognize leases that existed at September 1, 2022. The Foundation elects to apply ASC 842 retrospectively at the beginning of the period of adoption through a cumulative effect adjustment as of September 1, 2022, and continues to apply ASC 840 for year ended August 31, 2022.

Transition Disclosure – For leases existing at the transition date, the Foundation applied the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, the Foundation applied the practical expedient to use hindsight for the purpose of determining the lease term. If a lease includes an extension option, the Foundation will consider the changes in facts and circumstances from the initial lease commencement date through the transition date to determine if the changes in facts and circumstances require a change to the initial lease term. Lastly, the Foundation applies the short-term lease exemption of not recognizing a ROU asset and lease liability for leases that have terms of 12 months or less. Under the modified retrospective approach, the adoption of ASC 842 resulted in the recognition of ROU assets and lease liabilities of \$83,362 as of September 1, 2022. There is no cumulative effect adjustment to the net assets with or without donor restrictions at the transition date.

Income Taxes – The Foundation is exempt from income taxes under Section 501(c)(3) of the IRC and a similar provision of state law. The Foundation would be subject to federal income taxes on the net income from certain operations if such operations generated unrelated business income. No such unrelated business income tax, or interest and penalties related to unrelated business income, was incurred during the years ended August 31, 2023 or 2022. Accordingly, no provision for income taxes has been reflected in the Foundation's financial statements.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to tax examination for years prior to 2019.

Contributions – Unconditional promises to give are recognized as revenue upon receipt and classified as either contributions with donor restriction or contributions without donor restriction, depending on the existence and/or nature of donor restrictions, if any. Conditional promises to give and intentions to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction is met or expires in the reporting period in which the contribution is recognized. All other donor-restricted support is reported as an increase in net assets with 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 are reported in the statements of activities and changes in net assets as net assets released from restrictions.

A major donor is considered to be any donor from whom 10% or more of total contributions were derived. No donor made a donation that amounted to 10% or more of total contributions during the years ended August 31, 2023 or 2022.

All pledge receivables are expected to be collected within one year.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. The Foundation incurs expenses that directly relate to, and can be assigned to, specific programs or supporting activities. The Foundation also conducts activities attributable to more than one functional category. These costs which are not specifically attributable to a specific activity, for example, salaries and employee benefits, depreciation, and office expenses are allocated by management on a consistent basis among the activities impacted, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Date of Management’s Review – Subsequent events have been evaluated through November 30, 2023, the date that these financial statements were available to be issued, and there were no material events or transactions requiring additional disclosure or recognition in the financial statements.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the Foundation’s financial assets at August 31:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 8,887,256	\$ 2,583,460
Receivables	43,351	389,405
Investments	<u>9,898,512</u>	<u>14,675,252</u>
Total financial assets	18,829,119	17,648,117
Amounts not available to be used within one year -		
Net assets restricted for use beyond one year	<u>3,237,507</u>	<u>3,405,084</u>
Financial assets available to meet general expenditures within one year	<u>\$ 15,591,612</u>	<u>\$ 14,243,033</u>

The Foundation regularly monitors the availability of resources required to meet its operating needs, while also striving to maximize the investment of its available funds. Excess cash is invested in marketable debt and equity securities or mutual funds that are highly liquid and can be converted to cash in a short period of time. The Foundation manages cash flows on a weekly basis and has the ability to access the funds in investments as needed.

In addition to financial assets available to meet general expenditures over the next twelve months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Foundation receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

4. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances in one financial institution. The Foundation maintains a balance in the checking account of approximately \$2,314,000 and \$1,834,000 as of August 31, 2023 and 2022, respectively. The checking account is insured by the Federal Deposit Insurance Corporation up to \$250,000.

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. The Association has adopted a written investment policy designed to manage investment risk, and regularly monitors its investments.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants 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. FASB ASC 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Quoted prices for identical assets in active markets that the plan has the ability to access.

Level 2 – Inputs other than Level 1 inputs which are either directly or indirectly observable.

Level 3 – Unobservable inputs developed using management's estimates and assumptions, which reflect those which market participants would use.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2023 and 2022:

Mutual funds and equity securities – Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds – Stated at cost, which approximates fair value.

Government or agency securities – Valued using recent trade information for identical or similar securities using feeds from a number of live data sources including active market makers and inter-dealer brokers.

Corporate bonds – Determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads, and estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party pricing services where quoted market values are not available.

The Foundation evaluates its hierarchy disclosure for each reporting period. Based on various factors, it is possible that an asset or liability may be classified differently from one reporting period to another. However, the Foundation expects the changes in classifications between different levels will be rare.

The Foundation's financial assets measured at fair value on a recurring basis, were as follows at August 31, 2023 and 2022:

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
August 31, 2023				
Money market funds	\$ 6,572,674			\$ 6,572,674
Fixed income:				
Government or agency securities		\$ 9,898,512	\$ -	9,898,512
	<u>\$ 6,572,674</u>	<u>\$ 9,898,512</u>	<u>\$ -</u>	<u>\$ 16,471,186</u>
August 31, 2022				
Equity securities	\$ 7,099,815		\$ -	\$ 7,099,815
Mutual funds	2,195,340			2,195,340
Money market funds	749,164			749,164
Fixed income:				
Government or agency securities		\$3,484,719		3,484,719
Corporate bonds		1,895,378		1,895,378
	<u>\$ 10,044,319</u>	<u>\$ 5,380,097</u>	<u>\$ -</u>	<u>\$ 15,424,416</u>

The following table summarizes the net investment return as included in the Statement of Activities for the year ended August 31:

	2023	2022
Interest and dividends	\$ 411,504	\$ 302,535
Appreciation (depreciation) in fair value	632,491	(2,057,109)
Investment expenses	<u>(25,743)</u>	<u>(74,428)</u>
	<u>\$ 1,018,252</u>	<u>\$ (1,829,002)</u>

6. FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures, and equipment consist of the following at August 31:

	2023	2022
Computers and equipment	\$ 20,622	\$ 20,622
Furniture	<u>65,462</u>	<u>65,462</u>
Total furniture, fixtures, and equipment	86,084	86,084
Less accumulated depreciation	<u>(63,667)</u>	<u>(45,295)</u>
Furniture, fixtures, and equipment, net	<u>\$ 22,417</u>	<u>\$ 40,789</u>

Depreciation expense was \$18,372 and \$16,975 for the years ended August 31, 2023 and 2022, respectively.

7. NET ASSETS

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

	2023	2022
Veteran services activities:		
Scholarships and direct financial support	\$ 1,745,533	\$ 1,537,605
VFW service officer support	332,371	250,508
Other VFW veteran service support	<u>3,475,551</u>	<u>3,656,619</u>
	<u>\$ 5,553,455</u>	<u>\$ 5,444,732</u>

Net assets released from restrictions by satisfying the restricted purposes as stipulated by the donors were released as follows for the years ended August 31:

	2023	2022
Veteran service activities:		
Scholarships and direct financial support	\$ 1,537,605	\$ 1,154,945
VFW service officer support	250,508	251,613
Other VFW veteran service support	181,536	288,219
Community service and public awareness - Community service support grants	<u>-</u>	<u>46,800</u>
	<u>\$ 1,969,649</u>	<u>\$ 1,741,577</u>

8. OPERATING LEASES

The Foundation leases office space from the VFW under an operating lease expiring in August 2024. The Foundation has elected to use the risk-free interest rate at the lease commencement date of 3.86% to determine the present value of the future lease payments. The Foundation has recognized an operating lease right of use asset of \$42,470 and an operating lease liability of \$42,470 on its financial statements for the fiscal year ending August 31, 2023. Cash paid and rental expenses under this operating lease amounted to \$43,212 for each of the years ended August 31, 2023 and 2022, and are reflected as Occupancy expenses on the Statement of Functional Expenses. The future minimum lease rentals under the operating lease are \$43,212 for the year ended August 31, 2024.

9. AGENCY TRANSACTION

In 2011, the Foundation was named as a beneficiary of an estate, which specifically stated the funds were intended to be used for the benefit of the Veterans of Foreign Wars Department of North Carolina ("VFW-NC") to assist in obtaining compensation and/or government benefits. The total distribution received for the benefit of the VFW-NC was \$832,109. On an annual basis, the Foundation makes a disbursement to the VFW-NC to support their veterans service program, which works to help veterans dealing with the Veterans Administration claims process. The Foundation recognized a liability for the funds received, as these funds are considered held for the benefit of VFW-NC. The remaining liability was \$202,109 and \$252,109 at August 31, 2023 and 2022, respectively, and is included in accounts payable and other liabilities on the statements of financial position.

10. RELATED PARTY TRANSACTIONS

The Foundation reimburses the VFW for certain expenses incurred on its behalf. The total amount charged to the Foundation by the VFW for these reimbursable expenses amounted to \$927,022 and \$953,506 for the years ended August 31, 2023 and 2022, respectively. In addition, the Foundation leases office space from the VFW and incurred rental expense under the lease of \$43,212 for each of the years ended August 31, 2023 and 2022. The Foundation also pays the VFW for certain accounting, human resource and legal services provided by the VFW employees. The Foundation paid the VFW \$60,000 for these services for each of the years ended August 31, 2023 and 2022.

The Foundation provides certain contributions to the VFW. The total amount of contributions from the Foundation to the VFW amounted to \$2,620,000 and \$2,695,138 for the years ended August 31, 2023 and 2022, respectively. The VFW provided contributions that amounted to \$104,398 and \$54,487 to the Foundation for the years ended August 31, 2023 and 2022, respectively. As of August 31, 2023 and 2022, the Foundation has recorded a payable to VFW in the amount of \$85,910 and \$67,031, respectively.

11. CONTINGENCIES

The Foundation may be a party to legal actions arising in the ordinary course of its operations. In management's opinion, the Foundation has adequate legal defenses and/or insurance coverage in the event any legal action is brought against it.

12. EMPLOYEE BENEFIT PLANS

The employees of the Foundation participate in the benefit plans offered by the VFW. The VFW has a defined benefit pension plan and a plan that provides medical and dental benefits for certain retired employees and their spouses. The Foundation reimbursed VFW \$20,495 and \$34,040 for the years ended August 31, 2023 and 2022, respectively, for the amount that was allocated to the Foundation for these plans. The VFW also has a 401(k) plan available to employees in which they defer a percentage of their salary. The VFW makes contributions to the plan based upon guidelines set forth in the plan. The Foundation reimbursed VFW \$28,520 and \$25,415 for the years ended August 31, 2023 and 2022, respectively, for the contributions VFW made to this plan.
