Fisher House Foundation, Inc.

Audited Financial Statements
Years Ended December 31, 2016 and 2015

Fisher House Foundation, Inc.

Audited Financial Statements

Years Ended December 31, 2016 and 2015

Fisher House Foundation, Inc.

Contents

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

Board of Trustees
Fisher House Foundation, Inc.
Rockville, MD

Report on the Financial Statements

We have audited the accompanying financial statements of Fisher House Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and change in net assets, cash flows and functional expenses, for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fisher House Foundation, Inc. as of December 31, 2016 and 2015, and the change 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.

BDO USA, LLP

McLean, Virginia
May 15, 2017

Financial Statements

Fisher House Foundation, Inc.

Statements of Financial Position

December 31,		2016		2015
Assets				
Cash and cash equivalents	$	53,733,205	$	38,065,641
Certificates of deposit		25,255,773		20,099,417
Investments		-		765,779
Pledges and contributions receivable, net		2,727,722		7,019,931
Note receivable - related party		-		3,000,000
Due from related party		-		212,246
Construction-in-progress		7,945,180		27,841,508
Split-interest agreement receivable		470,507		508,594
Prepaid expenses and other assets		112,246		154,409
Property and equipment, net		18,684		26,915
Total assets	$	90,263,317	$	97,694,440
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses		2,136,845		4,770,630
Retainage payable		539,437		912,603
Deferred rent		20,543		34,852
Refundable advances		7,104,479		2,751,815
Deferred revenue		71,960		60,200
Total liabilities		9,873,264		8,530,100
Net assets				
Unrestricted net assets		62,590,722		70,523,774
Temporarily restricted net assets		17,049,331		17,890,566
Permanently restricted net assets		750,000		750,000
Total net assets		80,390,053		89,164,340
Total liabilities and net assets	$	90,263,317	$	97,694,440

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Activities and Change in Net Assets

Years Ended December 31,	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:								
Revenue								
Grants and contributions	$ 33,497,381	$ 14,433,662	$ -	$ 47,931,043	$ 26,581,388	$ 23,004,593	$ -	$ 49,585,981
Special events	2,687,923	648,480	-	3,336,403	2,546,688	-	-	2,546,688
Donated goods	11,162,914	-	-	11,162,914	13,985,025	-	-	13,985,025
Net assets released from restrictions	15,634,098	(15,634,098)	-	-	20,191,002	(20,191,002)	-	-
Total revenue	62,982,316	(551,956)	-	62,430,360	63,304,103	2,813,591	-	66,117,694
Expenses								
Program expenses	66,001,514	-	-	66,001,514	45,252,112	-	-	45,252,112
Management and general	2,683,494	-	-	2,683,494	2,178,998	-	-	2,178,998
Fundraising	2,881,656	-	-	2,881,656	3,882,000	-	-	3,882,000
Total expenses	71,566,664	-	-	71,566,664	51,313,110	-	-	51,313,110
Change in net assets before non-operating items	(8,584,348)	(551,956)	-	(9,136,304)	11,990,993	2,813,591	-	14,804,584
Non-operating items								
Investment income (expense)	340,813	21,204	-	362,017	(43,664)	21,832	-	(21,832)
Total non-operating items	340,813	21,204	-	362,017	(43,664)	21,832	-	(21,832)
Change in net assets	(8,243,535)	(530,752)	-	(8,774,287)	11,947,329	2,835,423	-	14,782,752
Net assets at the beginning of the year	70,834,257	17,580,083	750,000	89,164,340	58,576,445	15,055,143	750,000	74,381,588
Net assets at the end of the year	$ 62,590,722	$ 17,049,331	$ 750,000	$ 80,390,053	$ 70,523,774	$ 17,890,566	$ 750,000	$ 89,164,340

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Cash Flows

Years Ended December 31,	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (8,774,287)	$ 14,782,752
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	14,207	15,490
Change in value of split-interest agreement receivable	(10,058)	(10,798)
Realized and unrealized (gains) losses on investments	(3,675)	55,375
Change in allowance for doubtful pledges	(474,000)	(312,000)
Donated investments received	(732,587)	(615,923)
Change in deferred rent	(14,309)	(8,257)
Cost of houses donated	34,731,710	16,321,810
Changes in operating assets and liabilities:		
Due from related party	212,246	(212,246)
Pledges and contributions receivable	4,766,209	(2,011,037)
Split-interest agreement receivable	48,145	48,145
Prepaid expenses and other current assets	42,163	58,123
Accounts payable and accrued expenses	(2,633,785)	2,195,883
Retainage payable	(373,166)	767,204
Refundable advances	4,352,664	-
Deferred revenue	11,760	(55,020)
Total adjustments	39,937,524	16,236,749
Net cash provided by operating activities	31,163,237	31,019,501
Cash flows from investing activities:		
Additions to construction-in-progress	(14,835,382)	(37,534,161)
Purchases of property and equipment	(5,976)	(2,800)
Purchases of investments	(1,233,256)	(1,578,724)
Proceeds from sales of investments	2,008,242	824,853
Purchase of certificates of deposits	(5,156,356)	(20,099,417)
Proceeds received from repayment of note receivable	-	3,000,000
Proceeds received from repayment of related-party note receivable	3,000,000	-
Issuance of related-party note receivable	-	(3,000,000)
Proceeds from sales of donated securities	727,055	548,640
Net cash used in investing activities	(15,495,673)	(57,841,609)
Net increase (decrease) in cash and cash equivalents	15,667,564	(26,822,108)
Cash and cash equivalents at the beginning of the year	38,065,641	64,887,749
Cash and cash equivalents at the end of the year	$ 53,733,205	$ 38,065,641

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

	2016			
Year Ended December 31,	Program	Management and General	Fundraising	Total
Grants and awards	$ 58,431,966	$ -	$ -	$ 58,431,966
Public service announcements - donated	3,784,676	-	1,273,039	5,057,715
Payroll	841,491	1,090,409	450,074	2,381,974
Consulting fees	522,960	95,481	203,639	822,080
Event costs	311,498	-	311,498	622,996
Education and promotion	276,493	57,218	256,591	590,302
Payroll taxes and employee benefits	201,410	273,879	109,337	584,626
Office expenses	176,524	252,000	95,828	524,352
Director's compensation	340,619	97,320	48,660	486,599
Travel	334,169	57,866	38,577	430,612
Bad debt expense	-	320,890	-	320,890
Printing and publications	230,201	10,283	23,863	264,347
Bank and credit card fees	-	240,007	-	240,007
Rent expense	76,181	100,124	41,356	217,661
Dedication expense	188,866	-	-	188,866
Conferences	160,728	-	-	160,728
Postage	34,193	17,096	17,096	68,385
Professional fees	66,497	-	-	66,497
Telephone	16,624	21,848	9,024	47,496
Miscellaneous	-	29,217	-	29,217
Insurance	6,418	5,649	3,074	15,141
Depreciation and amortization	-	14,207	-	14,207
Total expenses	$ 66,001,514	$ 2,683,494	$ 2,881,656	$ 71,566,664

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

	2015			
Year Ended December 31,	Program	Management and General	Fundraising	Total
Grants and awards	$ 39,361,683	$ -	$ -	$ 39,361,683
Public service announcements - donated	2,153,200	-	2,153,200	4,306,400
Other payroll	741,028	850,961	393,829	1,985,818
Event costs	643,646	-	643,646	1,287,292
Consulting fees	380,462	36,365	162,541	579,368
Office expenses	235,435	204,609	95,104	535,148
Payroll taxes and employee benefits	231,774	179,030	95,488	506,292
Director's compensation	328,966	93,990	46,995	469,951
Education and promotion	213,108	54,285	174,655	442,048
Bank and credit card fees	-	320,948	-	320,948
Travel	226,807	39,256	26,170	292,233
Printing and publications	246,532	12,250	25,351	284,133
Allowance for doubtful pledges	-	234,985	-	234,985
Rent expense	96,972	81,597	39,172	217,741
Conferences	151,123	-	-	151,123
Professional fees	133,129	-	-	133,129
Postage	29,013	14,506	14,506	58,025
Dedication expense	51,346	-	-	51,346
Telephone	22,066	18,567	8,913	49,546
Depreciation	-	15,490	-	15,490
Miscellaneous	-	18,319	-	18,319
Insurance	5,822	3,840	2,430	12,092
Total expenses	$ 45,252,112	$ 2,178,998	$ 3,882,000	$ 51,313,110

See accompanying notes to the financial statements.

1. The Organization and Summary of Significant Accounting Policies

Fisher House Foundation, Inc. (the Foundation) is a not-for-profit Foundation incorporated under the laws of the State of Delaware on March 31, 1993, as amended on October 27, 1999. Fisher Houses are facilities constructed for the purpose of providing temporary lodging for members of the armed services and their families receiving care in military and veterans' hospitals. The Foundation was formed for, and program services consist of, constructing and donating Fisher Houses to various branches of the U.S. armed services and the Department of Veterans Affairs (Donees), providing gratuitous guidance and supervisory, as well as monetary, assistance in connection with the Donees' management and operation of the Fisher Houses. The Foundation also funds the scholarship program, and provides military personnel and their families with free air travel and hotel rooms. In addition, the Foundation's objectives are:

(a) To promote and enhance the public perception and image of the Fisher Houses and the U.S. armed forces, and to provide financial assistance to current members of the U.S. armed services, veterans and their families.

(b) To promote, encourage and provide support to enhance the communication and cooperation among the military and federal, state and local governments, and private foundations involved or associated with Fisher Houses through publications and support programs.

(c) To support and encourage programs designed to maintain the high-quality standards of care and management associated with Fisher Houses.

Basis of accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Donated Goods, Services and Media Time

Donated goods consist of contributed merchandise, phone cards with stored value and gift certificates, and are reported at their fair value as of the date of donation.

Donated air miles are not valued until they are redeemed by the Foundation and used in the Hero Miles Programs. The Foundation is part of a program (Hero Miles Program) to provide servicemen/women and their families who meet certain criteria free round-trip tickets using donated frequent flyer miles. During 2016 and 2015, the Foundation provided tickets totaling

5,294 and 5,601, respectively, which were valued at approximately $5,415,000 and $9,130,000, respectively. These amounts are included in donated goods, services and media time and charged to program services for the years ended December 31, 2016 and 2015.

Donated hotel rewards points are not valued until they are redeemed by the Foundation and used in the Hotels for Heroes Programs. The Foundation is part of a program (Hotels for Heroes Program) to provide qualified service members, veterans and their families free hotel rooms, using donated hotel reward points, when rooms at a Fisher House are not available. During 2016 and 2015, the Foundation provided nights of lodging totaling 3,793 and 2,068, respectively, which were valued at approximately $358,000 and $310,000, respectively. These amounts are included in donated goods, services and media time and charged to program services for the years ended December 31, 2016 and 2015.

Magazine printing and photography services donated as part of program services, fundraising or management and general expenses are recorded in the accompanying financial statements at their fair value on date of receipt to the extent that such amounts can be reasonably estimated. During 2016 and 2015, the Foundation received $71,531 and $63,985, respectively, in such services. These amounts are included in donated goods, services and media time, and were charged to program services for the years ended December 31, 2016 and 2015.

Donated media time used for public service announcements is reported at its fair value as estimated by management as of the date of donation. During 2016 and 2015, the Foundation received donated media time which was valued at $5,023,275 and $4,323,895, respectively. These amounts are included in donated goods, services and media time, and were charged in equal amounts to program services and fund-raising for the years ended December 31, 2016 and 2015.

Contribution revenue

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets. Wills are recorded as bequest revenue when the probate courts declare the wills valid and the proceeds are measurable. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable.

Contributions are recorded at fair value, which is net of estimated uncollectible amounts. The Foundation uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions, including multi-year pledges and split interest agreements, to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Grant revenue

The Foundation receives grant funding from federal agencies and private foundations. Revenue is recognized only to the extent of expenditures under the terms of the grants. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by the Foundation. Unexpended funds are returned to the grantors if required by the grant agreement. Some grant payments are received in advance of related expenditures. These amounts are reflected in the accompanying statements of financial position as refundable advances.

Special events revenue

Registration and fees are recognized upon completion of the related event. Some payments and fees are received in advance of the related event. These amounts are reflected in the accompanying statements of financial position as deferred revenue.

Cash equivalents

The Foundation considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Certificates of deposits

The certificates of deposit are recorded at cost, which approximate fair value.

Pledges and contributions receivable

Pledges and contributions receivable are recorded at face value, and then discounted to present value using interest rates appropriate to the estimated length of time for realization. All pledges and contributions receivable are reviewed annually for future collectability. Management determines the allowance for doubtful receivables by regularly evaluating individual receivables and considering the donor's financial condition and current economic conditions.

Notes receivable

Notes receivable are stated at the amount of unpaid principal, adjusted for an allowance for loan losses, when deemed appropriate. The Foundation records an allowance when management determines that collectability is not probable. Management's estimate is based on review of the loans comprising the notes receivable balance and considers known and inherent risks, the estimated fair value of the underlying collateral, and current economic conditions.

Construction-in-progress

Costs of construction of Fisher Houses to be donated are capitalized as incurred. All costs incurred in connection with the construction of a Fisher House are expensed when the house is donated.

Split-Interest agreement

The Foundation is one of the beneficiaries of a certain Charitable Lead Annuity Trust (the "Trust"). Under this agreement, the Foundation recorded a temporarily restricted contribution at the present value of the estimated future benefits to be received. Subsequent changes in fair value are recorded as changes in value of the agreement in the temporarily restricted net asset class. Distributions from the Trust are reflected as reductions in the assets temporarily restricted in use and reclassifications from temporarily restricted to unrestricted net assets.

Property and equipment

The Foundation's policy is to capitalize property and equipment in excess of $1,000. Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to five years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the term of the related lease.

Donated securities

Donated securities are reported at their fair value as of the date of donation. Sales of such securities are reflected on a trade-date basis.

Valuation of long-lived assets

The Foundation reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No indicators of impairment were identified as of December 31, 2016 and 2015.

Net assets

The Foundation classifies its net assets into the three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets - Unrestricted net assets are those net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Foundation pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently restricted net assets - Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. The Foundation's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classifications of endowment funds, such that earnings on donor-restricted endowment are reflected as temporarily restricted net assets until such amounts are appropriated for expenditure.

Functional allocation of expenses

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis in the accompanying statements of activities and change in net assets. Accordingly, certain costs have been allocated among the activities benefited.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). No provision for income taxes were recorded during the years ended December 31, 2016 and 2015 since the Foundation had no significant unrelated business income. The Foundation is not a private Foundation pursuant to section 509(a)(1) of the IRC.

In accordance with authoritative guidance issued by the Financial Accounting Standards Board (the FASB), the Foundation recognizes tax liabilities when, despite management's belief that tax return positions are supportable, the Foundation believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2012 and prior. Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no material uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Financial instruments

The fair value of the Foundation's short-term financial instruments, including cash and cash equivalents, accounts payable and accrued expenses approximate their carrying amounts due to the short maturity of these instruments.

Concentrations of credit risk

The Foundation's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, pledges and contributions receivable, notes receivable, and split-interest agreement receivable. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Foundation has never experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2016 approximate $51 million. Investment securities are exposed to various risks such as interest rate, market, and credit risks. The Foundation's pledges, split-interest agreement receivable, contributions, and notes receivable balances consist primarily of amounts due from individuals and corporations. The Foundation maintains reserves for potential credit losses when deemed necessary and historically such losses have been within management's expectations.

Recently adopted accounting pronouncements

In August 2014, the FASB issued guidance related to defining management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. This update did not have an impact on the financial statements upon adoption.

Recent accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This update supersedes previously issued guidance on revenue recognition and will apply to virtually all industries. The core principle of this new guidance is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies the performance obligation. The new standard will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. The Foundation is evaluating the effect that adoption of this new standard will have on the Foundation's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This standard relates to leasing for both lessees and lessors. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is evaluating the effect that adoption of this new standard will have on the Foundation's financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Foundation's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. The Foundation is currently evaluating the impact of this ASU on its financial statements.

2. Pledges and Contributions Receivable

Pledges and contributions receivable consist of the following at December 31:

	2016	2015
Due in less than one year	$ 2,656,203	$ 5,906,597
Due in one to five years	71,519	1,587,334
	2,727,722	7,493,931
Less: allowance for doubtful pledges	-	(474,000)
	$ 2,727,722	$ 7,019,931

3. Note Receivable – Related Party

As of December 31, 2015, notes receivable – related party consisted of a note receivable from a related party to the Foundation through common board members. The note receivable has initial face value of $3,000,000. The Foundation earned interest equal to the short-term applicable federal rate. The note and the related interest was paid on July 31, 2016.

4. Split-interest Agreement Receivable

The Foundation is one of the beneficiaries of a certain Charitable Lead Annuity Trust that is controlled by a third-party trustee. Under the agreement, the Foundation receives fixed annual distributions from the trust through January 2027. These payments are guaranteed irrespective of market performance of the investments. Annual distributions under the terms of this agreement as of December 31, 2016 are as follows:

Years ending December 31,	
2017	$ 48,145
2018	48,145
2019	48,145
2020	48,145
2021	48,145
Thereafter	286,434
	527,159
Less: discount for present value	(56,652)
	$ 470,507

The Foundation used a discount rate of 2.0% in determining the present value of the annual distributions to be collected at the time the Charitable Lead Annuity Trust was established.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2016	2015
Furniture and fixtures	$ 83,790	$ 83,790
Computer and other equipment	31,132	32,901
Leasehold improvements	30,600	30,600
	145,522	147,291
Less: accumulated depreciation and amortization	(126,838)	(120,376)
	$ 18,684	$ 26,915

Depreciation and amortization expense on property and equipment totaled $14,207 and $15,490 for the years ended December 31, 2016 and 2015, respectively.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2016	2015
Purpose restrictions:		
Construction of Fisher Houses	$ 10,772,306	$ 9,339,923
Support of Designated Fisher Houses	2,863,062	3,208,973
Scholarship Programs	2,843,455	3,950,702
Heroes Programs	-	71,891
Time and purpose restrictions:		
Construction of Fisher Houses	100,000	500,000
Time restrictions	470,508	508,594
	$ 17,049,331	$ 17,580,083

During the years ended December 31, 2016 and 2015, $15,634,098 and $20,191,002, respectively, of restricted funds were released, based on the Foundation's satisfaction of donor stipulations, as follows:

	2016	2015
Scholarship programs	$ 2,387,784	2,267,000
Designated houses	3,093,053	1,284,385
Heroes programs	725,859	76,094
Construction of Fisher Houses	9,389,316	16,526,173
Time restrictions	38,086	37,350
	$ 15,634,098	$ 20,191,002

7. Endowment

The Foundation’s endowment consists of a donor-restricted endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. This endowment was established in 2008 with permanent donor restriction on the corpus of $750,000, with investment earnings on the fund to be used by the Foundation for the SFMC (Scholarship for Military Children) scholarship program.

The Board of Trustees of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

As of December 31, 2016 and 2015, the Foundation's endowment had the following net asset composition:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 750,000	$ 750,000
Total endowment funds	$ -	$ 750,000	$ 750,000

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	-	$ 151	$ 750,000	$ 750,151
Investment return				
Investment income		21,832		21,832
Net losses	-	(48,660)	-	(48,660)
Total investment return	-	(26,828)	-	(26,828)
Appropriations		(17,043)		(17,043)
Reclass for underwater endowments	(48,660)	48,660	-	-
Net losses		(4,940)	-	(4,940)
Endowment net assets, December 31, 2015	(48,660)	-	750,000	701,340
Investment return				
Investment income	-	21,204	-	21,204
Net gains		4,008		4,008
Total investment return	-	25,212	-	25,212

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Appropriations	-	(4,942)		(4,942)
Reclass for underwater endowments	14,434	(14,434)	-	-
Investment management fees		(5,836)		(5,836)
Endowment net assets, December 31, 2016	(34,226)	$ -	$ 750,000	$ 715,774

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with authoritative guidance issued by the FASB, deficiencies of this nature are reported in unrestricted net assets. At December 31, 2016 and 2015, the cumulative amount of deficiencies reported in unrestricted net assets was $34,226 and $48,660, respectively.

8. Fair Value Measurements

Certain assets are recorded at fair value. Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Foundation's assets recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Foundation uses to measure its assets and liabilities at fair value.

Investments

Investments include money market funds, mutual funds and common stocks.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

Fair Value on a Recurring Basis

The Foundation did not hold investments as of December 31, 2016. Financial assets measured at fair value on a recurring basis as of December 31, 2015 are summarized below:

	As of December 31, 2015			
	Assets Measured At Fair	Fair Value Hierarchy Level		
Description	Value	Level 1	Level 2	Level 3
Investments				
Money Market funds	$ 61,306	$ 61,306	$ -	$ -
Common stocks				
Consumer goods	4,996	4,996	-	-
Healthcare industry	4,388	4,388	-	-
Finance industry	590	590	-	-
	9,974	9,974	-	-
Mutual funds				
Large blend	282,578	282,578	-	-
Moderate allocation	108,159	108,159	-	-
Intermediate term bond	89,528	89,528	-	-
Foreign large growth	71,309	71,309	-	-
Corporate bond	48,169	48,169	-	-
Energy limited partnership	36,328	36,328	-	-
High yield bond	34,796	34,796	-	-
Pacific/Asia Ex-Japan	23,116	23,116	-	-
Large value	516	516	-	-
	694,499	694,499	-	-
Total	$ 765,779	$ 765,779	$	$

9. Benefit Plan

The Foundation maintains a defined contribution 401(k) profit sharing plan (the Plan) for all employees who are over the age of 21. Participants may make voluntary contributions up to the maximum amount allowable by law. The Foundation's contributions to the Plan are at the discretion of management and vest to the participants immediately.

The Foundation recorded contributions to the Plan of $97,384 and $82,589 for the years ended December 31, 2016 and 2015, respectively.

10. Related Party Transactions

For the years ended December 31, 2016 and 2015, certain officers and trustees made contributions to the Foundation totaling $54,575 and $56,773, respectively. Further, the affiliates of certain trustees made contributions of $51,810 and $287,000, for years ended December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016 and 2015, payments totaling $31,150 and $1,159, respectively, were made to The Henry M. Jackson Foundation, the president of which, John Lowe, is a member of the Board of Trustees of the Foundation.

For the years ended December 31, 2016 and 2015, the Foundation compensated James Weiskopf, an officer of the Foundation, $66,669 and $78,065, respectively, for his services in connection with the scholarship program and consulting. Such amounts have been charged to expense as program services.

Some of Foundation's board members serve on the Board of Directors of a non-profit organization (MASI). The Foundation paid for certain expenses on behalf of MASI. During the years ended December 31, 2016 and 2015, $0 and $212,246, respectively, is due from MASI to the Foundation for these expenses. These amounts are reflected as due from related party in the accompanying statements of financial position. During 2016, the Foundation awarded a grant totaling $8,600,000 to MASI. During 2015, the Foundation awarded a grant totaling $5,000,000 to MASI. This expense is included in program expenses in the accompanying statements of activities. Also, during 2015, the Foundation entered into a note receivable with MASI in amount $3,000,000 and this note was repaid in full in July 2016 (see Note 3).

11. Major Grantors and Donors

For the year ended December 31, 2016, three donors/grantors accounted for 10% of the Foundation's revenue. For the year ended December 31, 2015, two donors/grantors accounted for 14% of the Foundation's revenue.

12. Commitments

The Foundation leases office space under the terms of a non-cancelable operating lease that expires in December 2017. The Foundation is also responsible for certain operating expenses. As of December 31, 2016, the Foundation has future minimum lease payment required under this operating lease of $214,000 that is due in fiscal year 2017.

The Foundation recognizes the total cost of its office lease ratably over the respective lease periods. The difference between rent paid and rent expense is reflected as deferred rent in the accompanying statements of financial position.

Rent expense aggregated $217,661 and $217,741 for the years ended December 31, 2016 and 2015, respectively.

13. Subsequent Events

The Foundation has evaluated its December 31, 2016 financial statements for subsequent events through May 15, 2017, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.