



Fisher House Foundation, Inc.

Audited Financial Statements
Years Ended December 31, 2017 and 2016

Fisher House Foundation, Inc.

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Fisher House Foundation, Inc.

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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, 2017 and 2016, 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, 2017 and 2016, 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 7, 2018

Financial Statements

Fisher House Foundation, Inc.

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 66,079,688	\$ 53,733,205
Certificates of deposit	754,474	25,255,773
Pledges and contributions receivable, net	4,163,855	2,727,722
Construction-in-progress	14,883,454	7,945,180
Split-interest agreement receivable	431,668	470,507
Prepaid expenses and other assets	181,290	112,246
Property and equipment, net	7,476	18,684
Total assets	\$ 86,501,905	\$ 90,263,317
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 5,231,034	\$ 2,136,845
Retainage payable	504,866	539,437
Deferred rent	-	20,543
Refundable advances	-	7,104,479
Deferred revenue	136,876	71,960
Total liabilities	5,872,776	9,873,264
Net assets		
Unrestricted net assets	66,526,207	62,590,722
Temporarily restricted net assets	13,352,922	17,049,331
Permanently restricted net assets	750,000	750,000
Total net assets	80,629,129	80,390,053
Total liabilities and net assets	\$ 86,501,905	\$ 90,263,317

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Activities and Change in Net Assets

<i>Years Ended December 31,</i>	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:								
Revenue								
Grants and contributions	\$ 33,838,897	\$ 15,703,096	\$ -	\$ 49,541,993	\$ 35,456,916	\$ 14,433,662	\$ -	\$ 49,890,578
Special events	949,212	748,317	-	1,697,529	728,388	648,480	-	\$ 1,376,868
Donated goods	5,468,999	-	-	5,468,999	11,162,914	-	-	\$ 11,162,914
Net assets released from restrictions	20,152,297	(20,152,297)	-	-	15,634,098	(15,634,098)	-	-
Total revenue	60,409,405	(3,700,884)	-	56,708,521	62,982,316	(551,956)	-	62,430,360
Expenses								
Program expenses	52,521,836	-	-	52,521,836	66,001,514	-	-	66,001,514
Management and general	2,779,040	-	-	2,779,040	2,683,494	-	-	2,683,494
Fundraising	1,374,933	-	-	1,374,933	2,881,656	-	-	2,881,656
Total expenses	56,675,809	-	-	56,675,809	71,566,664	-	-	71,566,664
Change in net assets before non-operating items	3,733,596	(3,700,884)	-	32,712	(8,584,348)	(551,956)	-	(9,136,304)
Non-operating items								
Investment income	201,889	4,475	-	206,364	340,813	21,204	-	362,017
Total non-operating items	201,889	4,475	-	206,364	340,813	21,204	-	362,017
Change in net assets	3,935,485	(3,696,409)	-	239,076	(8,243,535)	(530,752)	-	(8,774,287)
Net assets at the beginning of the year	62,590,722	17,049,331	750,000	80,390,053	70,834,257	17,580,083	750,000	89,164,340
Net assets at the end of the year	\$ 66,526,207	\$ 13,352,922	\$ 750,000	\$ 80,629,129	\$ 62,590,722	\$ 17,049,331	\$ 750,000	\$ 80,390,053

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Cash Flows

<i>Years Ended December 31,</i>	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 239,076	\$ (8,774,287)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	11,208	14,207
Change in value of split-interest agreement receivable	(9,306)	(10,058)
Realized and unrealized gains on investments	(2,199)	(3,675)
Change in allowance for doubtful pledges	-	(474,000)
Donated investments received	(1,163,555)	(732,587)
Change in deferred rent	(20,543)	(14,309)
Cost of houses donated	33,082,151	34,731,710
Changes in operating assets and liabilities:		
Due from related party	-	212,246
Pledges and contributions receivable	(1,436,133)	4,766,209
Split-interest agreement receivable	48,145	48,145
Prepaid expenses and other current assets	(69,044)	42,163
Accounts payable and accrued expenses	3,094,189	(2,633,785)
Retainage payable	(34,571)	(373,166)
Refundable advances	(7,104,479)	4,352,664
Deferred revenue	64,916	11,760
Total adjustments	26,460,779	39,937,524
Net cash provided by operating activities	26,699,855	31,163,237
Cash flows from investing activities:		
Additions to construction-in-progress	(40,020,425)	(14,835,382)
Purchases of property and equipment	-	(5,976)
Purchases of investments	-	(1,233,256)
Proceeds from sales of investments	-	2,008,242
Purchase of certificates of deposits	-	(5,156,356)
Proceeds from sales of certificates of deposits	24,501,299	-
Proceeds received from repayment of related-party note receivable	-	3,000,000
Proceeds from sales of donated securities	1,165,754	727,055
Net cash used in investing activities	(14,353,372)	(15,495,673)
Net increase in cash and cash equivalents	12,346,483	15,667,564
Cash and cash equivalents at the beginning of the year	53,733,205	38,065,641
Cash and cash equivalents at the end of the year	\$ 66,079,688	\$ 53,733,205

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended December 31,</i>	2017			
	Program	Management and General	Fundraising	Total
Grants and awards	\$ 44,741,878	\$ -	\$ -	\$ 44,741,878
Public service announcements - donated	2,842,900	-	-	2,842,900
Payroll	1,026,247	1,126,452	317,563	2,470,262
Event costs	1,245,024	-	427,357	1,672,381
Office expenses	397,232	379,210	107,182	883,624
Payroll taxes and employee benefits	315,678	282,244	90,044	687,966
Consulting fees	409,683	13,788	100,728	524,199
Bank and credit card fees	-	490,495	-	490,495
Director's compensation	331,480	94,708	47,354	473,542
Education and promotion	219,952	-	169,162	389,114
Printing and publications	299,676	31,765	38,909	370,350
Rent expense	106,818	95,967	28,822	231,607
Dedication expense	201,088	-	-	201,088
Travel	150,588	22,824	15,216	188,628
Conferences	154,050	-	-	154,050
Professional fees	-	126,331	-	126,331
Postage	48,368	24,184	24,184	96,736
Telephone	25,126	22,574	6,780	54,480
Miscellaneous	-	51,857	-	51,857
Insurance	6,048	5,433	1,632	13,113
Depreciation and amortization	-	11,208	-	11,208
Total expenses	\$ 52,521,836	\$ 2,779,040	\$ 1,374,933	\$ 56,675,809

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended December 31,</i>	2016			
	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.

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 (the 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 2017 and 2016, the Foundation provided 1,641 and 4,126,

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respectively, tickets which were valued at approximately \$1,960,000 and \$5,415,000, respectively. These amounts are included in donated goods, services and media time and charged to program services for the years ended December 31, 2017 and 2016.

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 2017 and 2016, the Foundation provided 1,281 and 2,356, respectively, nights of lodging which were valued at approximately \$200,000 and \$358,000, respectively. These amounts are included in donated goods, services and media time and charged to program services for the years ended December 31, 2017 and 2016.

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 2017 and 2016, the Foundation received \$68,675 and \$71,531, 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, 2017 and 2016.

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 2017 and 2016, the Foundation received donated media time which was valued at \$2,911,200 and \$5,023,275, 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, 2017 and 2016.

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. Bequests are recorded as bequest revenue when the probate courts declare a will 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.

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Notes to the Financial Statements

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

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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, 2017 and 2016.

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.

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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, 2017 and 2016 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, 2013 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

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insured limits at December 31, 2017 approximate \$62.5 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.

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

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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.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation, with no effect on the change in net assets, as previously reported.

2. Pledges and Contributions Receivable

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

	2017	2016
Due in less than one year	\$ 2,174,344	\$ 2,656,203
Due in one to five years	1,989,511	71,519
	<u>\$ 4,163,855</u>	<u>\$ 2,727,722</u>

3. 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, 2017 are as follows:

Years ending December 31,

2018	\$ 48,145
2019	48,145
2020	48,145
2021	48,145
2022	48,145
Thereafter	238,289
	<u>479,014</u>
Less: discount for present value	<u>(47,346)</u>
	<u>\$ 431,668</u>

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.

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Notes to the Financial Statements

4. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Furniture and fixtures	\$ 83,790	\$ 83,790
Computer and other equipment	31,132	31,132
Leasehold improvements	30,600	30,600
	145,522	145,522
Less: accumulated depreciation and amortization	(138,046)	(126,838)
	\$ 7,476	\$ 18,684

Depreciation and amortization expense on property and equipment totaled \$11,208 and \$14,207 for the years ended December 31, 2017 and 2016, respectively.

5. Temporarily Restricted Net Assets

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

	2017	2016
Purpose restrictions:		
Construction of Fisher Houses	\$ 6,960,027	\$ 10,772,306
Support of Designated Fisher Houses	1,935,846	2,863,062
Scholarship Programs	601,920	2,843,455
Heroes Program	111,211	-
Other	12,250	-
Time and purpose restrictions:		
Construction of Fisher Houses	1,050,000	100,000
Scholarship Program	2,250,000	-
Time restrictions	431,668	470,508
	\$ 13,352,922	\$ 17,049,331

During the years ended December 31, 2017 and 2016, \$20,152,297 and \$15,634,098, respectively, of restricted funds were released, based on the Foundation's satisfaction of donor stipulations, as follows:

	2017	2016
Scholarship programs	\$ 2,806,761	\$ 2,387,784
Designated houses	2,464,402	3,093,053
Heroes programs	1,831,804	725,859
Construction of Fisher Houses	12,824,068	9,389,316
Other	186,423	-
Time restrictions	38,839	38,086
	\$ 20,152,297	\$ 15,634,098

Fisher House Foundation, Inc.

Notes to the Financial Statements

6. 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, 2017 and 2016, 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

Fisher House Foundation, Inc.

Notes to the Financial Statements

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
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
Investment return				
Investment income		4,475		4,475
Total investment return		4,475		4,475
Appropriations		(4,475)		(4,475)
Endowment net assets, December 31, 2017	\$ (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, 2017 and 2016, the cumulative amount of deficiencies reported in unrestricted net assets was \$34,226 each, respectively.

7. 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 \$105,679 and \$97,384 for the years ended December 31, 2017 and 2016, respectively.

Fisher House Foundation, Inc.

Notes to the Financial Statements

8. Related Party Transactions

For the years ended December 31, 2017 and 2016, certain officers and trustees made contributions to the Foundation totaling \$46,925 and \$54,575, respectively. Further, the affiliates of certain trustees made contributions of \$51,630 and \$51,810, for years ended December 31, 2017 and 2016, respectively.

For the years ended December 31, 2017 and 2016, payments totaling \$27,613 and \$31,150, respectively, were made to The Henry M. Jackson Foundation, the president (retired May 2017) of which, John Lowe, is a member of the Board of Trustees of the Foundation.

For the years ended December 31, 2017 and 2016, the Foundation compensated James Weiskopf, an officer of the Foundation, \$62,765 and \$66,669, 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). During 2016, the Foundation awarded a grant totaling \$8,600,000 to MASI. This expense is included in program expenses in the accompanying statements of activities.

9. Major Grantors and Donors

For the year ended December 31, 2017, four donors/grantors accounted for 12% of the Foundation's revenue. For the year ended December 31, 2016, three donors/grantors accounted for 10% of the Foundation's revenue.

10. Commitments

The Foundation leases office space under the terms of a non-cancelable operating lease that expired in December 2017. The Foundation is also responsible for certain operating expenses. As of December 31, 2017, the Foundation is on a month to month lease with the current landlord and is expected to move from this space by April 2018.

The Foundation has entered into a new lease for office space under the terms of a non-cancelable operating leases that expires in the 94th month after lease commencement. The operating lease agreement provides for an annual 2.5% escalation of the base rent and a ten-month abatement period. The Foundation is also responsible for certain operating expenses. The following is a schedule by year of the future minimum lease payments required under this operating lease as of December 31, 2018:

Years ending December 31,

2018	\$	259,000
2019		239,000
2020		245,000
2021		251,000
2022		257,000
Thereafter		765,000
	\$	2,016,000

Fisher House Foundation, Inc.

Notes to the Financial Statements

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 \$231,607 and \$217,661 for the years ended December 31, 2017 and 2016, respectively.

11. Subsequent Events

The Foundation has evaluated its December 31, 2017 financial statements for subsequent events through May 7, 2018, 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, other than that described in Note 10.