

WOUNDED WARRIOR HOMES, INC.

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

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WOUNDED WARRIOR HOMES, INC.
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Wounded Warrior Homes, Inc.

Opinion

We have audited the accompanying financial statements of Wounded Warrior Homes, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities 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 Wounded Warrior Homes, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Wounded Warrior Homes, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Wounded Warrior Homes, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 the Wounded Warrior Homes, Inc.'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 Wounded Warrior Homes, Inc.'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.

Ling & Bowman, LLP

San Diego, California
September 16, 2022

WOUNDED WARRIOR HOMES, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2022 and 2021

<u>ASSETS</u>		
	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash and cash equivalents	\$ 447,660	\$ 316,512
Investments	5,843	4,343
Beneficial interest in assets held by other-agency funds	24,222	27,400
Other current assets	3,785	2,485
Total Current Assets	<u>481,510</u>	<u>350,740</u>
Property and equipment, net	1,294,289	1,178,442
Other Assets:		
Deposits	3,400	3,400
Beneficial interest in assets held by other-endowment	24,222	27,400
Donations receivable	200,000	-
Total Assets	<u>\$ 2,003,421</u>	<u>\$ 1,559,982</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 30,209	\$ 28,784
Accrued and other liabilities	31,578	30,118
Deferred revenue	237,795	18,467
Total Current Liabilities	299,582	77,369
Long-Term Liabilities-Net of Current Portion	664,753	694,447
Total Liabilities	<u>964,335</u>	<u>771,816</u>
Net Assets:		
Without donor restrictions	1,019,086	768,166
With donor restrictions	20,000	20,000
Total Net Assets	<u>1,039,086</u>	<u>788,166</u>
Total Liabilities and Net Assets	<u>\$ 2,003,421</u>	<u>\$ 1,559,982</u>

See accompanying notes to financial statements.

WOUNDED WARRIOR HOMES, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Direct public support and grants	\$ 610,492	\$ -	\$ 610,492
In-kind donated advertising	77,799	-	77,799
Special events	91,223	-	91,223
In-kind donated food and goods	74,502	-	74,502
Donated accessory dwelling unit	140,000	-	140,000
Rental income	20,531	-	20,531
Interest and dividends, net	1,126	-	1,126
Unrealized gain and loss on investments, net	(7,652)	-	(7,652)
Other income	8,105	-	8,105
Total	<u>1,016,126</u>	<u>-</u>	<u>1,016,126</u>
Net Assets Released From Restrictions	-	-	-
Total Revenue and Support	<u>1,016,126</u>	<u>-</u>	<u>1,016,126</u>
Expenses			
Program and housing services	624,267	-	624,267
Supporting services:			
Management and General	61,750	-	61,750
Fundraising	79,189	-	79,189
Total expenses	<u>765,206</u>	<u>-</u>	<u>765,206</u>
Changes in Net Assets	250,920	-	250,920
Net Assets at Beginning of Year	768,166	20,000	788,166
NET ASSETS AT END OF YEAR	<u>\$ 1,019,086</u>	<u>\$ 20,000</u>	<u>\$ 1,039,086</u>

See accompanying notes to financial statements

WOUNDED WARRIOR HOMES, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Direct public support and grants	\$ 526,792	\$ -	\$ 526,792
In-kind donated advertising	55,059	-	55,059
Special events	21,400	-	21,400
In-kind donated food and goods	63,183	-	63,183
Rental income	34,726	-	34,726
Interest and dividends, net	1,272	-	1,272
Unrealized gain and loss on investments, net	10,492	-	10,492
Other gain - debt forgiveness PPP loan	42,905	-	42,905
Total	755,829	-	755,829
 Net Assets Released From Restrictions	 -	 -	 -
Total Revenue and Support	755,829	-	755,829
Expenses			
Program and housing services	538,237	-	538,237
Supporting services:			
Management and General	44,839	-	44,839
Fundraising	46,127	-	46,127
Total expenses	629,203	-	629,203
 Changes in Net Assets	 126,626	 -	 126,626
 Net Assets at Beginning of Year	 641,540	 20,000	 661,540
 NET ASSETS AT END OF YEAR	 \$ 768,166	 \$ 20,000	 \$ 788,166

See accompanying notes to financial statements

WOUNDED WARRIOR HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2022

	Program Services	Supporting Services		Totals
		Management & General	Fundraising	
Personnel expenses	\$ 246,360	\$ 32,822	\$ 11,497	\$ 290,679
Donated foods and goods	74,502	-	-	74,502
Donated advertising	77,799	-	-	77,799
Housing rent	66,148	-	-	66,148
Professional fees	36,010	14,700	29,395	80,105
Interest expense	35,073	-	-	35,073
Occupancy expenses	33,045	8,692	2,739	44,476
Depreciation	23,991	162	-	24,153
Other program expense	3,795	-	-	3,795
Marketing and development	12,359	1,116	35,165	48,640
Insurance	8,995	791	393	10,179
Event expense	2,161	-	-	2,161
Travel	2,768	-	-	2,768
Taxes, licenses and fees	701	35	-	736
Bank charges	392	3,213	-	3,605
Meals and dining	168	219	-	387
Total Expenses	\$ 624,267	\$ 61,750	\$ 79,189	\$ 765,206

See accompanying notes to financial statements

WOUNDED WARRIOR HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2021

	Program Services	Supporting Services		Totals
		Management & General	Fundraising	
Personnel expenses	\$ 205,314	\$ 27,722	\$ 9,749	\$ 242,784
Donated foods and goods	63,183	-	-	63,183
Donated advertising	55,059	-	-	55,059
Housing rent	44,994	-	-	44,994
Professional fees	42,984	3,091	30,513	76,589
Interest expense	36,367	-	-	36,367
Occupancy expenses	33,134	7,027	1,940	42,100
Depreciation	22,786	712	-	23,498
Other program expense	11,370	-	-	11,370
Marketing and development	10,265	830	1,940	13,034
Insurance	8,543	1,047	392	9,982
Event expense	1,831	-	1,067	2,898
Travel	1,315	-	63	1,378
Taxes, licenses and fees	702	75	-	777
Bank charges	233	4,023	464	4,720
Meals and dining	157	313	-	470
Total Expenses	<u>\$ 538,237</u>	<u>\$ 44,839</u>	<u>\$ 46,127</u>	<u>\$ 629,203</u>

See accompanying notes to financial statements

WOUNDED WARRIORS HOME, INC.
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 250,920	\$ 126,626
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	24,153	23,498
Net investment gain on assets held by others	(1,500)	(10,492)
Forgiveness of PPP loan	-	(42,905)
Change in operating assets and liabilities:		
Other current assets	(1,300)	175
Donations receivable	(200,000)	-
Accrued and other liabilities	1,459	(410)
Deferred revenue	219,329	13,432
	<u>293,061</u>	<u>109,924</u>
Net Cash Provided by Operating Activities	<u>293,061</u>	<u>109,924</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	6,356	(718)
Donation of assessorly dwelling unit	(140,000)	
Purchases of property and equipment	-	(6,123)
	<u>(133,644)</u>	<u>(6,841)</u>
Net Cash Provided by (Used In) Investing Activities	<u>(133,644)</u>	<u>(6,841)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on mortgages payable	(28,269)	(26,925)
	<u>(28,269)</u>	<u>(26,925)</u>
Net Cash Used in Financing Activities	<u>(28,269)</u>	<u>(26,925)</u>
Net Increase in Cash	131,148	76,158
Cash at Beginning of Year	316,512	240,354
	<u>316,512</u>	<u>240,354</u>
Cash at End of Year	<u>\$ 447,660</u>	<u>\$ 316,512</u>
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest	\$ 35,073	\$ 36,367
	<u>\$ 35,073</u>	<u>\$ 36,367</u>
NON-CASH TRANSACTIONS		
Donated advertising	\$ 77,799	\$ 55,059
Donated advertising expense	(77,799)	(55,059)
Donated food and goods	74,502	63,183
Donated food and goods expense	(74,502)	(63,183)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

WOUNDED WARRIOR HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

Note 1. Organization and Summary of Significant Accounting Policies

Wounded Warrior Homes, Inc. (the “Organization”) is a California non-profit corporation established on December 28, 2009. The organization provides long term transitional housing and additional resources to single post-9/11 homeless veterans who have experienced a Traumatic Brain Injury (TBI) and/or Post-Traumatic Stress Disorder (PTSD).

Wounded Warrior Homes, Inc.’s goal is to make a significant impact in the lives of veterans in our community. The Organization provides post-9/11 wounded and homeless veterans with supportive transitional housing and a host of comprehensive re-integrative services that includes, but it not restricted to: financial counseling, food pantry, help with navigating the Veterans Affairs system, and supplying food for their service dogs. The Organization assists each veteran in the program in creating and implementing a life plan further facilitating their transition into civilian society.

Basis of Accounting

Financial statement presentation follows the pronouncements of the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 958, “Not-for-Profit Entities”.

The Organization uses the accrual method of accounting.

Date of Management’s Review

Subsequent events were evaluated through September 16, 2022, which is the date the financial statements were available to be issued.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restrictions, based on the following criteria:

Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Wounded Warrior Homes, Inc.’s management and the board of directors.

Net assets with donor restrictions consists of contributed funds subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those

WOUNDED WARRIOR HOMES, INC.

**NOTES TO FINANCIAL STATEMENTS
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restrictions will be met by actions of Wounded Warrior Homes, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The Organization has \$20,000 of net assets with board imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents and Concentration

For purposes of cash flows, the Organization considers all highly liquid investments available for current uses with an initial maturity of three months or less to be cash equivalents.

The Organization maintains cash balances at banks insured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash and cash equivalents.

Investments

Investments are carried at fair value in the statement of financial position. Realized and unrealized gains and losses on investments, interest and dividends, and investment expense are included in the change in net assets.

Property and Equipment

Acquisitions of property and equipment of \$2,500 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value at the date of donation. Expenditures for maintenance and repairs are charged against functional expenses. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of 5-39 years.

WOUNDED WARRIOR HOMES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

Property and equipment donated with explicit restrictions regarding their use or disposal are reported as assets with donor restrictions and support depending on the nature of the restrictions.

Donations Receivable and Deferred Revenue

Donations receivable consists of a grant from the Trinka Davis Foundation paid in \$100,000 increments for fiscal years 2023 and 2024 for a total of \$200,000.

Deferred revenue consists of contributions received for the golf tournament fundraiser the organization puts on annually that will occur in the next fiscal year and the above mentioned donations from the Trinka Davis Foundation.

Contributions and Grants

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions.

Advertising and In-Kind Advertising

Advertising is charged to operations when incurred. Donated advertising is recognized in the accompanying statements at their estimated fair market values at date of occurrence. Advertising costs totaled \$127,439 and \$68,903 (including donated advertising of \$77,799 and \$55,059), for the years ending June 30, 2022 and 2021, respectively.

In-Kind Donations

Donated goods and services are recognized in the accompanying statements at their estimated fair market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are reported in the financial statements as revenue and expenditures. The value of these donations has been determined from invoices rendered by the various donors. The Organization recorded \$74,502 and \$68,183 in non-cash donations for the years ended June 30, 2022 and 2021.

A number of volunteers have made significant contributions of time to the Organization's program and support functions. The value of this contributed time does not meet the criteria for recognition of donated services under generally accepted accounting principles and, is not reflected in the accompanying financial statements.

WOUNDED WARRIOR HOMES, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021**

Functional Expenses and Cost Allocations

The organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, utilization of assets, and estimates made by the Organization's management. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel expense	Time and effort
Professional fees	Time and effort
Occupancy	Management estimate
Depreciation	Utilization of assets
Marketing and development	Management estimate
Donated services	Time and effort
Event expense	Management effort
Insurance	Management effort
Other	Management effort

Income Taxes

The Organization is a not-for-profit organization and is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation may be subject to tax on income which is not related to its exempt purpose. The Organization had no unrelated business income tax for the years ended June 30, 2022 and 2021.

The Organization follows the provisions of uncertain tax positions as addressed in FASB ASC No. 740.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions.

The Organization files informational and income tax returns in the United States of America and California. The Foundation's federal and California income tax and informational returns are subject to examination by federal and California authorities dating back to June 30, 2017.

WOUNDED WARRIOR HOMES, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021**

Recently Issued Accounting Standards

The Financial Accounting Standards Board (“FASB”) codifies the various sources of GAAP into the Accounting Standards Codification (“ASC”). Any updates to the ASC are communicated through Accounting Standards Updates (“ASU”). In 2020 and up to the date of the independent auditor’s report, the FASB has issued various ASUs for which the majority are not pertinent to the operations of the Organization. Those ASUs that are pertinent have been adopted (see Accounting Pronouncements Adopted) or will be adopted in future years in accordance with the update provisions and are not expected to have any impact on the financial condition, results of operations or cash flows of the Organization.

Note 2. Liquidity and Funds Available

The following represents Wounded Warrior Homes, Inc. financial assets at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 447,660	\$ 316,512
Investment	5,843	4,343
Beneficial interest in assets held by others	<u>48,444</u>	<u>54,800</u>
	458,347	375,655
Less those unavailable to be used within the next 12 months, due to:		
Donor imposed restrictions	-	-
Board designated restricted endowment	20,000	20,000
Resident savings account held in escrow	<u>109</u>	<u>109</u>
	20,109	20,109
Financial assets available to meet general expenditures within one year	<u>\$ 478,456</u>	<u>\$ 355,546</u>

The Organization manages its liquidity and reserves following these guiding principles: operating with a prudent range of financial soundness and stability, maintaining liquid assets to fund near-term operating needs, and maintain sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. The Organization has a policy to target a year-end balance

WOUNDED WARRIOR HOMES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

of reserves of unrestricted, undesignated net assets to meet 90+ days of expected expenditures. To achieve these targets, the Organization forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves annually. During the year ending June 30, 2022 and 2021, the level of liquidity and reserves was managed within the policy requirements.

Note 3. Investment and Fair Value Disclosures

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- *Level 1 inputs* are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has ability to access.
- *Level 2 inputs* are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- *Level 3 inputs* are unobservable inputs for the asset or liability and rely on management's own estimates about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Organization's own data.

Money market mutual funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Marketable securities including publically traded investments such as domestic and foreign equity, mutual funds and government and corporate obligations that trade on an active exchange are classified within Level 1.

Assets held by others as more fully described in Note 4 are considered Level 2 inputs.

WOUNDED WARRIOR HOMES, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021**

The following table presents the Organization’s investments by fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2022 and 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2022:				
Money market funds	\$ 109	\$ -	\$ -	\$ 109
Exchange traded funds	-	-	-	-
Assets held by others	<u>5,734</u>	<u>48,444</u>	<u>-</u>	<u>54,178</u>
	<u>\$ 5,843</u>	<u>\$ 48,444</u>	<u>\$ -</u>	<u>\$ 54,287</u>
2021:				
Money market funds	\$ 73	\$ -	\$ -	\$ 73
Exchange traded funds	4,270	-	-	4,270
Assets held by others	<u>-</u>	<u>54,800</u>	<u>-</u>	<u>54,800</u>
	<u>\$ 4,343</u>	<u>\$ 54,800</u>	<u>\$ -</u>	<u>\$ 59,143</u>

Note 4. Beneficial Interests in Assets Held by Others

The Organization’s endowment and non-endowment funds held at a local community foundation, Rancho Santa Fe Foundation (Foundation), are invested in balanced pool portfolios which include publicly traded securities, mutual funds and other investments. As described in Note 3, the pooled investments are categorized as Level 2 due to the indirect observable inputs.

Agency Fund (non-endowment): The Organization transferred funds to the Foundation primarily to take advantage of the Foundation’s investment management expertise. Variance power over the fund was granted to the Foundation. The funds are considered *beneficial interests in assets held by other (agency funds)* totaling \$24,222 and \$27,400 in the statements of financial position at June 30, 2022 and 2021, respectively.

Board Designated Endowment Funds: An endowment fund established with the Foundation is recorded as *beneficial interests in assets held by other (endowment fund)* in the statements of financial position at June 30, 2022 and 2021. The Organization transferred assets and granted variance powers to the Foundation to establish an endowment fund. The Board of Directors of the Foundation has the sole discretionary

WOUNDED WARRIOR HOMES, INC.

**NOTES TO FINANCIAL STATEMENTS
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power to modify the terms of the fund including restriction, conditions and beneficiaries without the consent of the Organization.

Under the terms of the agreement, the Organization has irrevocably transferred the assets to the Foundation. Generally, the Organization is entitled to an annual distribution of income as determined by the Foundation's endowment spending policy.

The endowment fund is subject to the Rancho Santa Fe Foundation's investment and endowment spending policies in accordance to the Foundation's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which requires the preservation of the fair value of the original gifts as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation determines the annual distribution, up to five percent of the total value of the fund over the previous three-year period. The Foundation does not make distributions in the first year of the fund.

The fair value of the endowment fund as of June 30, 2022 and 2021 is \$24,222 and \$27,400, respectively, of which \$20,000 is included in net assets with donor restrictions. The unrealized gains and losses on this account are treated as net assets without donor restrictions.

Note 5. Property and Equipment

Property and equipment at June 30, 2022 and 2021 - at cost:

	2022	<u>2021</u>
Buildings	\$ 900,780	\$ 760,781
Land	479,154	479,155
Leasehold Improvements	106,155	106,153
Furniture and Equipment	14,417	14,417
Computers	<u>2,450</u>	<u>2,450</u>
	1,502,956	1,362,956
Less: Accumulated Depreciation	<u>(208,667)</u>	<u>(184,514)</u>
	<u>\$ 1,294,289</u>	<u>\$ 1,178,442</u>

Depreciation expense was \$24,153 and \$23,498 for the years ending June 30, 2022 and 2021.

WOUNDED WARRIOR HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

Note 6. Operating Lease Agreement

The Organization entered into an operating lease agreement for its office space on May 26, 2015. The lease includes scheduled base rent increases. Current monthly rent is \$1,888 as of June 30, 2022, expiring May 2023. Rent expense for the years ending June 30, 2022 and 2021 was \$23,565 and \$20,208 and is included in occupancy expenses.

The Organization entered into an operating lease agreement for its veteran housing on December 24, 2015. The lease includes scheduled base rent increases. The lease expired on December 2018 and was converted to month-to-month. Current monthly rent is \$1,825 as of June 30, 2022. Rent expense for the years ending June 30, 2022 and 2021 was \$20,000 and \$21,900.

Future minimum annual rental payments under the office lease is \$22,656 for the year ending June 30, 2023.

Note 7. Long Term Debt

At June 30, 2022 and 2021, long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
Mortgage secured by residence in Vista, CA payable monthly in installments of \$2,349 with interest at 4.31% per annum, maturing December 15, 2027	\$ 319,785	\$ 333,667
Mortgage secured by residence in Oceanside, CA payable monthly in installments of \$2,930 with interest at 5.35% per annum, maturing April 1, 2028	<u>\$ 375,177</u>	<u>\$ 389,564</u>
Subtotal	694,962	723,231
Less: Current Portion	<u>30,209</u>	<u>28,784</u>
Total Long-Term Debt	<u>\$ 664,753</u>	<u>\$ 694,447</u>

Due to the COVID-19 pandemic the organization was able to defer certain payments. The interest related to the deferred payments is included in accrued liabilities in the amount of \$3,862 for the Vista, CA residence and \$5,571 for the Oceanside, CA residence.

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Annual principal payments for mortgages payable follow:

2023	\$ 30,209
2024	31,705
2025	33,277
2026	34,927
2027	36,659
Thereafter	<u>528,185</u>
Total	<u>\$ 694,962</u>

Interest expense on the mortgages payable for the years ending June 30, 2022 and 2021 was \$35,073 and \$36,367.

Payroll Protection Program Loan

The Organization obtained a loan from its bank under the Paycheck Protection Program as established by the CARES Act, enacted March 27, 2020. The loan totaling \$42,905 was to be used to pay for payroll costs, group health care benefits and rent and utility costs occurring over a specified term as defined in the loan agreement and if used in accordance with the terms, would be eligible for loan forgiveness. The Organization used the funds for these eligible purposes and accordingly met the loan requirements for forgiveness of the loan. The Organization applied to the bank for loan forgiveness and was granted the forgiveness on January 6, 2021. This loan forgiveness has been shown as Other Gain in the accompanying Statement of Activities for the year ended June 30, 2021.

Note 8. Net Assets with Donor Restrictions

The Organization from time to time receives donations with donor imposed restrictions, meaning the restricted funds usage is restricted to a specific purpose and/or program. The Organization did not receive any donations with donor restrictions in 2022. The restricted endowment represents the fair value of the assets at the time the endowment fund was established with the Rancho Santa Fe Foundation (see Note 4).

Changes in net assets with donor restrictions for the years ended June 30, 2022 and 2021 as follows:

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	<u>06/30/2021</u>	<u>Additions</u>	<u>Released</u>	<u>06/30/2022</u>
Contributions with donor Restrictions	\$ -	\$ -	\$ -	\$ -
Board Designated Restricted Endowment	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>

	<u>06/30/2020</u>	<u>Additions</u>	<u>Released</u>	<u>06/30/2021</u>
Contributions with donor Restrictions	\$ -	\$ -	\$ -	\$ -
Board Designated Restricted Endowment	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Total	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>

Note 9. Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could continue to be impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the ongoing pandemic. Management is carefully monitoring the situation. No adjustments have been made to these financial statements as a result of this uncertainty.