

***ACTIVE HEROES, INC.***  
***A Not-for-Profit Organization***

***Financial Report***

***December 31, 2017***

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Independent Auditor's Report

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Active Heroes, Inc.



**HARDING, SHYMANSKI  
& COMPANY, P.S.C.**

Certified Public Accountants  
and Consultants

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### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Active Heroes, Inc., a Not-for-Profit Organization (Organization), which comprise the statement of financial position as of December 31, 2017, the related statements of activities, cash flows, and functional expenses for the year 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 audit. We conducted our audit 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 of 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.

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Evansville, IN ■ Louisville, KY

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

***Opinion***



In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter – Report on Summarized Comparative Information***

The financial statements of Active Heroes, Inc. as of and for the year ended December 31, 2016 were audited by other auditors whose report, dated July 17, 2017, expressed an unqualified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Wardig, Szymanski & Company, P.S.C.*

Louisville, Kentucky  
December 5, 2018

**ACTIVE HEROES, INC.**  
**A Not-for-Profit Organization**

STATEMENTS OF FINANCIAL POSITION  
December 31, 2017 with Comparative Totals for 2016

|  | 2017                      | 2016                      |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>                                      |                           |                           |
| Current Assets                                     |                           |                           |
| Cash   | \$ 283,622                | \$1,189,168               |
| Inventories  | 38,693                    | 43,693                    |
| Pledges receivable                                 | 19,925                    | 0                         |
| Prepaid expenses                                   | 12,500                    | 17,503                    |
| <b>Total current assets</b>                        | <b>354,740</b>            | 1,250,364                 |
| Property and Equipment, Net                        | 1,731,813                 | 912,793                   |
| Funds at the Louisville Community Foundation, Inc. | 84,944                    | 73,136                    |
|  | <u><b>\$2,171,497</b></u> | <u><b>\$2,236,293</b></u> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                           |                           |
| Current Liabilities                                |                           |                           |
| Accounts payable and accrued expenses              | \$ 9,144                  | \$ 18,751                 |
| Current maturities of long-term debt               | 15,821                    | 16,274                    |
| <b>Total current liabilities</b>                   | <b>24,965</b>             | 35,025                    |
| Long-Term Debt                                     | 101,118                   | 116,939                   |
| <b>Total liabilities</b>                           | <b>126,083</b>            | 151,964                   |
| Net Assets   |                           |                           |
| Unrestricted                                       | 1,969,240                 | 1,186,379                 |
| Temporarily restricted                             | 8,685                     | 830,461                   |
| Permanently restricted                             | 67,489                    | 67,489                    |
|  | <u><b>2,045,414</b></u>   | <u><b>2,084,329</b></u>   |
|  | <u><b>\$2,171,497</b></u> | <u><b>\$2,236,293</b></u> |

See notes to financial statements.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

STATEMENTS OF ACTIVITIES  
 Year Ended December 31, 2017 with Comparative Totals for 2016

|                                       | 2017                |                        |                        | 2016               |
|---------------------------------------|---------------------|------------------------|------------------------|--------------------|
|                                       | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total              |
| <b>Revenue and Other Support</b>      |                     |                        |                        |                    |
| Contributions                         | \$ 1,071,704        | \$ 0                   | \$ 0                   | \$1,071,704        |
| Retail sales                          | 40,884              | 0                      | 0                      | 40,884             |
| Other revenues                        | 1,449               | 12,462                 | 0                      | 13,911             |
| Net assets released from restrictions | 834,238             | (834,238)              | 0                      | 0                  |
| Total revenue and other support       | <u>1,948,275</u>    | <u>(821,776)</u>       | <u>0</u>               | <u>1,126,499</u>   |
| <b>Expenses</b>                       |                     |                        |                        |                    |
| Program services                      | 996,203             | 0                      | 0                      | 996,203            |
| Supporting services                   |                     |                        |                        |                    |
| Fundraising                           | 43,148              | 0                      | 0                      | 43,148             |
| General and administrative            | 126,063             | 0                      | 0                      | 126,063            |
| Total expenses                        | <u>1,165,414</u>    | <u>0</u>               | <u>0</u>               | <u>1,165,414</u>   |
| <b>Change in Net Assets</b>           | <b>782,861</b>      | <b>(821,776)</b>       | <b>0</b>               | <b>(38,915)</b>    |
| Net assets at beginning of year       | <u>1,186,379</u>    | <u>830,461</u>         | <u>67,489</u>          | <u>2,084,329</u>   |
| Net assets at end of year             | <u>\$ 1,969,240</u> | <u>\$ 8,685</u>        | <u>\$ 67,489</u>       | <u>\$2,084,329</u> |

See notes to financial statements.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

STATEMENTS OF CASH FLOWS  
Year Ended December 31, 2017 with Comparative Totals for 2016

|  | 2017              | 2016               |
|--|-------------------|--------------------|
| Cash Flows From Operating Activities   |                   |                    |
| Change in net assets   | \$ (38,915)       | \$ 695,156         |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                   |                    |
| Depreciation   | 64,991            | 44,673             |
| Loss on sale of property and equipment   | 7,309             | 4,501              |
| Changes in assets and liabilities:   |                   |                    |
| Decrease (increase)  |                   |                    |
| Accounts receivable  | (19,925)          | 1,000              |
| Inventories  | 5,000             | (21,110)           |
| Prepaid expenses   | 5,003             | (8,765)            |
| Funds at the Louisville Community Foundation, Inc.   | (11,808)          | (6,554)            |
| Increase (decrease)  |                   |                    |
| Accounts payable and accrued expenses  | (9,607)           | (48,286)           |
|  | <u>2,048</u>      | <u>660,615</u>     |
| <b>Net cash provided by operating activities</b>   | <b>2,048</b>      | <b>660,615</b>     |
| Cash Flows from Investing Activities   |                   |                    |
| Proceeds from sale of property and equipment   | 3,150             | 0                  |
| Purchase of property and equipment   | (894,470)         | (289,408)          |
|  | <u>(891,320)</u>  | <u>(289,408)</u>   |
| <b>Net cash used in investing activities</b>   | <b>(891,320)</b>  | <b>(289,408)</b>   |
| Cash Flows from Financing Activities   |                   |                    |
| Principal payments on long-term borrowings   | (16,274)          | (15,453)           |
|  | <u>(16,274)</u>   | <u>(15,453)</u>    |
| Net increase (decrease) in cash  | (905,546)         | 355,754            |
| Cash at beginning of year  | <u>1,189,168</u>  | <u>833,414</u>     |
| Cash at end of year  | <u>\$ 283,622</u> | <u>\$1,189,168</u> |
| Supplemental Disclosure of Cash Flow Information   |                   |                    |
| Cash payments for interest   | <u>\$ 6,352</u>   | <u>\$ 7,192</u>    |

See notes to financial statements.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

STATEMENTS OF FUNCTIONAL EXPENSES  
December 31, 2017 with Comparative Totals for 2016

|  | 2017                |                      |                            |              | 2016         |
|--|---------------------|----------------------|----------------------------|--------------|--------------|
|  | Supporting Services |                      |                            | Total        | Total        |
|  | Program Expenses    | Fundraising Expenses | General and Administrative |              |              |
| Advertising and promotion              | \$ 56,585           | \$ 108               | \$ 258                     | \$ 56,951    | \$ 58,679    |
| Automotive                             | 17,818              | 823                  | 823                        | 19,464       | 23,843       |
| Bad debt                               | 0                   | 0                    | 2,000                      | 2,000        | 0            |
| Bank and investment fees               | 0                   | 0                    | 2,128                      | 2,128        | 8,959        |
| Community outreach                     | 38,293              | 242                  | 242                        | 38,777       | 42,920       |
| Conferences, conventions, and meetings | 7,671               | 128                  | 2,154                      | 9,953        | 5,574        |
| Cost of goods sold                     | 28,436              | 0                    | 11,100                     | 39,536       | 20,258       |
| Depreciation                           | 60,430              | 1,843                | 2,718                      | 64,991       | 44,673       |
| Dues and subscriptions                 | 7,906               | 2,131                | 1,449                      | 11,486       | 10,554       |
| Equipment                              | 51,757              | 344                  | 344                        | 52,445       | 35,617       |
| Fundraising                            | 14,771              | 4,701                | 4,272                      | 23,744       | 12,829       |
| Grants                                 | 84,002              | 0                    | 0                          | 84,002       | 50,394       |
| Information technology                 | 58,790              | 7,098                | 8,562                      | 74,450       | 43,657       |
| Insurance                              | 32,756              | 3,407                | 4,548                      | 40,711       | 37,205       |
| Interest                               | 6,312               | 0                    | 0                          | 6,312        | 7,192        |
| Loss on disposal of fixed assets       | 0                   | 0                    | 7,309                      | 7,309        | 4,501        |
| Miscellaneous                          | 19,494              | 1,618                | 1,761                      | 22,873       | 14,543       |
| Occupancy                              | 55,902              | 2,000                | 1,958                      | 59,860       | 55,280       |
| Office expense                         | 33,982              | 1,704                | 3,512                      | 39,198       | 57,368       |
| Payroll taxes                          | 21,878              | 1,050                | 1,362                      | 24,290       | 31,058       |
| Professional fees                      | 90,931              | 3,137                | 51,897                     | 145,965      | 98,608       |
| Repairs and maintenance                | 16,996              | 0                    | 0                          | 16,996       | 21,635       |
| Salaries and wages                     | 245,310             | 12,366               | 16,185                     | 273,861      | 354,469      |
| Supplies                               | 26,968              | 364                  | 553                        | 27,885       | 34,082       |
| Taxes                                  | 3,195               | 0                    | 844                        | 4,039        | 2,994        |
| Travel, meals, and entertainment       | 16,020              | 84                   | 84                         | 16,188       | 33,190       |
| Total expenses                         | \$ 996,203          | \$ 43,148            | \$ 126,063                 | \$ 1,165,414 | \$ 1,110,082 |

See notes to financial statements.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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***Note 1 – Nature of Business and Significant Accounting Policies***

*Nature of Business*

The mission of Active Heroes, Inc. (Organization) is to support all U.S. military service members, veterans and their families through physical, educational, and emotional programs in an effort to eliminate suicide.

*Summarized Financial Information for Prior Year*

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

*Basis of Presentation*

The Organization presents its financial statements in conformance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in "Financial Statements of Not-For-Profit Organizations", which establishes standards for external financial reporting by not-for-profit organizations. It requires that information regarding financial position and activities be reported into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classes of net assets are based on the existence or absence of externally (donor)-imposed restrictions on contributions defined as follows:

*Unrestricted Net Assets*

Contributions without donor-imposed restrictions.

*Temporarily Restricted Net Assets*

Contributions received with either time or purpose restrictions that expire over time or when the purpose has been met.

*Permanently Restricted Net Assets*

Contributions received with donor-imposed restrictions that neither expire by the passage of time nor by meeting a purpose.

***ACTIVE HEROES, INC.***  
***A Not-for-Profit Organization***

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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***Note 1 – Nature of Business and Significant Accounting Policies (Continued)***

***Concentrations of Credit Risk***

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and pledges receivable. At times, cash in banks may be in excess of the Federal Deposit Insurance Corporation insurance limit.

***Inventories***

Inventories of items held for resale are stated at the lower of cost (first-in, first-out method) and net realizable value.

***Pledges Receivable***

Pledges are recorded as receivables in the year made. The Organization provides for losses on pledges receivable using the allowance method. The allowance for uncollectible pledges is based upon the Organization's collection policy, past experience, the length of time pledges have been outstanding, and current economic factors. At December 31, 2017 and 2016, an allowance is not deemed necessary by management and all pledges deemed uncollectible have been written off to bad debt expense. All pledges at December 31, 2017 and 2016, are expected to be collected within the next year.

***Property, Equipment, and Depreciation***

Property and equipment are stated at cost, or if donated, are recorded at fair market value at the date of donation. Provisions for depreciation of property and equipment have been computed on the straight-line method over the estimated useful life.

***Long-Lived Assets***

Long-lived assets are reviewed for impairment in accordance with guidance issued by FASB. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Impairment losses are measured by comparing the estimated fair value of the assets to their carrying amount. There were no impairment losses for the years ended December 31, 2017 and 2016.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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***Note 1 – Nature of Business and Significant Accounting Policies (Continued)***

*Contributions and Miscellaneous Funding*

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Retail Sales*

The Organization has retail sales primarily consisting of clothing and other accessories with their logo available for sale to the general public.

*Functional Allocation of Expenses*

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, general and administrative, and fundraising categories based on the estimated time spent on activities and other methods. Costs of items that can be specifically identified are charged directly to the respective category.

*Income Taxes*

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Management evaluated the Organization's uncertain tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements.

*Advertising*

Advertising costs are expensed as incurred.

*Subsequent Events Evaluation*

The Organization has evaluated subsequent events through December 5, 2018, the date on which the financial statements were available to be issued.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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***Note 1 – Nature of Business and Significant Accounting Policies (Continued)***

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Reclassification*

Certain items in the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 classifications.

*Recent Accounting Pronouncements*

*Leases*

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The standard is effective on January 1, 2020, with early adoption permitted.

*Revenue Recognition from Contracts with Customers*

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, and interim periods for years beginning after December 15, 2019.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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***Note 1 – Nature of Business and Significant Accounting Policies (Continued)***

*Recent Accounting Pronouncements (Continued)*

*Net Assets Classification*

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted.

*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this standard should assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. This standard will be effective for contributions received for reporting periods beginning after December 15, 2018 and for contributions made for reporting periods beginning after December 15, 2019.

The Organization is currently evaluating the impact the adoption of these standards will have on its financial statements.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 with Comparative Totals for 2016

**Note 2 – Property and Equipment**

Property and equipment at December 31, 2017 and 2016 consisted of the following:

|                          | <u>2017</u>        | <u>2016</u>       |
|--------------------------|--------------------|-------------------|
| Land                     | \$ 376,713         | \$ 376,713        |
| Construction in progress | 520,503            | 212,133           |
| Land improvements        | 556,583            | 104,564           |
| Buildings                | 191,754            | 100,715           |
| Equipment                | 143,817            | 123,107           |
| Furniture and fixtures   | 31,177             | 26,182            |
| Vehicles                 | <u>58,709</u>      | <u>58,709</u>     |
|                          | 1,879,256          | 1,002,123         |
| Accumulated depreciation | <u>(147,443)</u>   | <u>(89,330)</u>   |
|                          | <u>\$1,731,813</u> | <u>\$ 912,793</u> |

Depreciation expense for the years ended December 31, 2017 and 2016 was \$64,991 and \$44,673, respectively.

**Note 3 – Long-Term Debt**

Long-term debt at December 31, 2017 and 2016 consisted of the following:

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Note payable to bank, 4.99%, \$1,887 monthly,<br>due December 2018, including a balloon payment of<br>approximately \$102,000, secured by Organization assets (A) | 116,939           | 133,213           |
| Less current maturities   | <u>(15,821)</u>   | <u>(16,274)</u>   |
|   | <u>\$ 101,118</u> | <u>\$ 116,939</u> |

(A) In October 2018, the Organization refinanced the note payable to be paid over 5 years with a 5.25 percent interest rate.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 with Comparative Totals for 2016

**Note 3 – Long-Term Debt (Continued)**

Long-term debt maturities are as follows:

|            |           |
|------------|-----------|
| 2018       | \$ 15,821 |
| 2019       | 18,980    |
| 2020       | 20,000    |
| 2021       | 21,077    |
| 2022       | 22,211    |
| Thereafter | 18,850    |

Total interest expense for the years ended December 31, 2017 and 2016 was \$6,352 and \$7,192, respectively.

**Note 4 – Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2017 and 2016 consisted of the following:

|                                    | <u>2017</u>     | <u>2016</u>      |
|------------------------------------|-----------------|------------------|
| Retreat Center                     | \$ 0            | \$781,799        |
| Lift a Life Grant                  | 0               | 14,200           |
| Chive Grant                        | 0               | 34,462           |
| Community Foundation of Louisville | <u>8,685</u>    | <u>0</u>         |
|                                    | <u>\$ 8,685</u> | <u>\$830,461</u> |

Net assets of \$834,238 and \$257,726 for the years ended December 31, 2017 and 2016, respectively, have been released from temporarily restricted net assets due to the fulfillment of purpose-based restrictions.

**Note 5 – Operating Lease Commitments**

The Organization entered into a lease agreement for their headquarter office located at 5809 Bardstown Road. The lease is a three-year lease that began January 15, 2016 and expires on December 31, 2018. Lease expense under this agreement was \$12,000 for the year ended December 31, 2017. Future minimum lease payments at December 31, 2017 are as follows:

|                                 |                 |
|---------------------------------|-----------------|
| <u>Year Ending December 31,</u> |                 |
| 2018                            | <u>\$12,000</u> |

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 with Comparative Totals for 2016

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**Note 6 – Fair Value Measurements and Endowment**

Under FASB's authoritative guidance on fair value measurements, 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. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2017 and 2016, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following are descriptions of the valuation methodologies used for instruments measured at fair value:

*Funds held at the Louisville Community Foundation, Inc.*

The underlying assets of the funds are valued primarily at the closing price reported on the active market on which the individual securities are traded. The funds are valued at the Fund's share of the net asset value of the comingled underlying assets.

**ACTIVE HEROES, INC.**  
*A Not-for-Profit Organization*

NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 with Comparative Totals for 2016

**Note 6 – Fair Value Measurements and Endowment (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2017 and 2016:

|   | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u>   | <u>Level 3</u> |
|---|-------------------|----------------|------------------|----------------|
| <u>December 31, 2017</u>                                |                   |                |                  |                |
| Funds held at the Louisville Community Foundation, Inc. | <u>\$ 84,944</u>  | <u>\$ 0</u>    | <u>\$ 84,944</u> | <u>\$ 0</u>    |
| <u>December 31, 2016</u>                                |                   |                |                  |                |
| Funds held at the Louisville Community Foundation, Inc. | <u>\$ 73,136</u>  | <u>\$ 0</u>    | <u>\$ 73,136</u> | <u>\$ 0</u>    |

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

The Organization has placed endowment funds with Louisville Community Foundation, Inc. (Foundation). The agreement with the Foundation provides that a distributable amount of five percent of the average fund balance will be made available annually. The net income of the endowment fund, as defined in the agreement between the Foundation and the Organization, is available for distribution.

As of December 31, 2017, \$67,489 of the fund is permanently restricted, \$8,685 is temporarily restricted, and \$8,771 is unrestricted. As of December 31, 2016, \$67,489 of the fund was permanently restricted and \$5,647 was unrestricted.

As these endowment funds reside at the Foundation, the investment objective of the endowment funds is to have an allocation of 65 percent traditional equities, 15 percent non-traditional equities, 18 percent fixed income, and up to two percent cash with the funds invested in moderately conservative investments. This should provide an annual rate of return which exceeds annual distributions in order to protect against inflation. An annualized return may cause the portfolio to experience periods of negative rates of return while aiming for a higher return over a long-term period.