

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

Financial Report

December 31, 2018 and 2017

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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

21 S.E. Third Street, Suite 500
P.O. Box 3677
Evansville, IN 47735-3677

(812) 464-9161
Fax (812) 465-7811

545 S. Third Street, Suite 102
Louisville, KY 40202-1935

(502) 584-4142
Fax (502) 581-1653

www.hsccpa.com

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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, 2018, 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 Organization'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 Organization'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, 2018, 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.

Correction of Error

As described in Note 8 to the financial statements, a prior period adjustment on the 2017 financial statements was identified related to net assets being improperly classified as donor restricted. The error was corrected in 2018. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unqualified audit opinion on those audited financial statements in our report dated December 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived other than the correction of error noted in the paragraph above.

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

Louisville, Kentucky

November 7, 2019

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

STATEMENTS OF FINANCIAL POSITION
 December 31, 2018 with Comparative Totals for 2017 (as Restated)

	2018	2017
ASSETS		
Current Assets		
Cash	\$ 302,572	\$ 283,622
Inventories	44,493	38,693
Pledges receivable	10,000	19,200
Prepaid expenses and other current assets	<u>25,728</u>	<u>13,225</u>
Total current assets	382,793	354,740
Property and Equipment, Net	1,859,335	1,731,813
Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc.	<u>77,997</u>	<u>84,944</u>
	<u>\$2,320,125</u>	<u>\$2,171,497</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,741	\$ 9,144
Current maturities of long-term debt	<u>18,980</u>	<u>15,821</u>
Total current liabilities	25,721	24,965
Long-Term Debt	<u>80,700</u>	<u>101,118</u>
Total liabilities	106,421	126,083
Net Assets Without donor restriction	<u>2,213,704</u>	<u>2,045,414</u>
	<u>\$2,320,125</u>	<u>\$2,171,497</u>

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2018 with Comparative Totals for 2017 (as Restated)

	2018			2017
	Without Donor Restriction	With Donor Restriction	Total	Total
Revenue and Other Support				
Contributions	\$ 572,753	\$ 0	\$ 572,753	\$1,071,704
Other revenues	22,720	75,000	97,720	42,987
Investment income (loss) and Unrealized gains (losses) on beneficial interest	(6,947)		(6,947)	11,808
Gain on sale of property and equipment	55,386	0	55,386	7,309
Net assets released from restrictions	75,000	(75,000)	0	0
Total revenue and other support	<u>718,912</u>	<u>0</u>	<u>718,912</u>	<u>1,133,808</u>
Expenses				
Program services	495,354	0	495,354	996,203
Supporting services				
Fundraising	17,547	0	17,547	43,148
General and administrative	37,721	0	37,721	126,063
Total expenses	<u>550,622</u>	<u>0</u>	<u>550,622</u>	<u>1,165,414</u>
Change in Net Assets	<u>168,290</u>	<u>0</u>	<u>168,290</u>	<u>(38,915)</u>
Net assets at beginning of year, as previously reported	1,969,240	76,174	2,045,414	2,084,329
Prior period adjustment (See Note 8)	76,174	(76,174)	0	0
Net assets beginning of year, as restated	<u>2,045,414</u>	<u>0</u>	<u>2,045,414</u>	<u>2,084,329</u>
Net assets at end of year	<u>\$ 2,213,704</u>	<u>\$ 0</u>	<u>\$2,213,704</u>	<u>\$2,045,414</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2018 with Comparative Totals for 2017 (as Restated)

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$168,290	\$ (38,915)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Gains) losses in Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc.	6,947	(11,808)
Depreciation	79,279	64,991
(Gain) Loss on sale of property and equipment	(55,386)	7,309
Changes in assets and liabilities:		
Decrease (increase)		
Pledges receivable	9,200	(19,925)
Inventories	(5,800)	5,000
Prepaid expenses and other current assets	(12,503)	5,003
Increase (decrease)		
Accounts payable and accrued expenses	(2,403)	(9,607)
	<u>187,624</u>	<u>2,048</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	74,909	3,150
Purchase of property and equipment	(226,324)	(894,470)
	<u>(151,415)</u>	<u>(891,320)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(17,259)	(16,274)
	<u>18,950</u>	<u>(905,546)</u>
Net increase (decrease) in cash		
Cash at beginning of year	<u>283,622</u>	<u>1,189,168</u>
Cash at end of year	<u>\$302,572</u>	<u>\$283,622</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 5,654</u>	<u>\$ 6,352</u>

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2018 with Comparative Totals for 2017 (as Restated)

	2018				2017
	<u>Supporting Services</u>				<u>Total</u>
	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>General and Administrative</u>	<u>Total</u>	
Advertising and promotion	\$ 17,070	\$ 428	\$ 478	\$ 17,976	\$ 56,951
Automotive	11,184	405	701	12,290	19,464
Bad debt	0	0	0	0	2,000
Bank and investment fees	658	0	236	894	2,128
Community outreach	200	0	0	200	38,777
Conferences, conventions, and meetings	0	0	0	0	9,953
Depreciation	73,715	2,248	3,316	79,279	64,991
Dues and subscriptions	1,884	154	13	2,051	11,486
Equipment	3,611	0	0	3,611	52,445
Fundraising	0	4,908	0	4,908	4,701
Grants	780	0	0	780	84,002
Information technology	6,107	0	0	6,107	74,450
Insurance	25,060	2,137	2,549	29,746	40,711
Interest	5,614	0	40	5,654	6,312
Loss on disposal of fixed assets	0	0	0	0	7,309
Miscellaneous	10,344	0	2,675	13,019	22,873
Occupancy	41,247	617	617	42,481	59,860
Office expense	22,286	693	5,536	28,515	58,241
Professional fees	35,745	2,772	14,515	53,032	145,965
Repairs and maintenance	2,384	0	0	2,384	16,996
Salaries, wages, and taxes	223,440	3,170	6,947	233,557	298,151
Supplies	7,970	0	0	7,970	67,421
Taxes	0	0	0	0	4,039
Travel and meals	6,055	15	98	6,168	16,188
Total expenses	<u>\$ 495,354</u>	<u>\$ 17,547</u>	<u>\$ 37,721</u>	<u>\$ 550,622</u>	<u>\$ 1,165,414</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

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.

Comparative Amounts

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, 2017, from which the summarized information was derived. As disclosed further in *Recently Adopted Accounting Standards*, the Organization adopted ASU 2016-14, which changed the presentation and certain descriptions related to net assets for the previously-issued 2017 financial statements. See Note 8, for description of Prior Period Adjustment related to 2017.

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. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

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

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, 2018 and 2017, 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, 2018 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.

Construction-in-progress includes direct and indirect expenditures for the construction of the Retreat Welcome Center and Pavilion and is stated at original cost. Once a building project becomes operational, these capitalized costs are allocated to certain property, plant, and equipment categories and are depreciated over the estimated useful life of the underlying assets.

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, 2018 and 2017.

Contributions and Miscellaneous Funding

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the Organization.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

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

Contributions and Miscellaneous Funding (Continued)

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

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Functional Allocation of Expenses

Expenses are recorded when incurred in accordance with the accrual basis of accounting. 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.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

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

Subsequent Events Evaluation

The Organization has evaluated subsequent events through November 7, 2019, the date on which the financial statements were available to be issued.

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, 2017 financial statements have been reclassified to conform to the December 31, 2018 classifications.

Recently Adopted Accounting Standards

Financial Statement Presentation

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. In the current year, the Organization adopted ASU 2016-14, which did not have a material effect on the Organization’s financial statements other than presentation and disclosure changes. The ASU has been applied retrospectively to all periods presented.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. During the year ended December 31, 2018, the Organization adopted ASU 2015-17, and the ASU has been retrospectively applied to all periods presented.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

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

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. The Organization is in the process of evaluating the impact of this new guidance on the financial statements.

Revenue Recognition

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. It also requires additional disclosures. 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. The Organization is currently evaluating the effect that the standard will have on the financial statements.

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 after December 15, 2018. This standard will be effective for contributions made for reporting periods after December 15, 2019. The Organization is currently assessing the impact of the new accounting pronouncements on its financial statements.

ACTIVE HEROES, INC.
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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 2 – Liquidity and Availability

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of programs and services offered to support U.S. military service members, veterans and their families through physical, educational, and emotional programs in an effort to eliminate suicide. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient funding to cover operating expenditures. Refer to the statement of cash flows which identifies the sources and uses of the Organization’s cash and shows positive cash generated by operations for the years ended December 31, 2018 and 2017.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 302,572
Pledges receivable	<u>10,000</u>
	<u><u>\$ 312,572</u></u>

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 3 – Property and Equipment

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 368,463	\$ 376,713
Construction-in-progress	593,816	520,503
Land improvements	674,964	556,583
Buildings	191,754	191,754
Equipment	161,999	143,817
Furniture and fixtures	34,138	31,177
Vehicles	<u>45,096</u>	<u>58,709</u>
	2,070,230	1,879,256
Accumulated depreciation	<u>(210,895)</u>	<u>(147,443)</u>
	<u><u>\$1,859,335</u></u>	<u><u>\$1,731,813</u></u>

Construction-in-progress relates mainly to costs incurred at the Retreat Welcome Center and Pavilion. The Retreat Welcome Center was placed in service in 2019 and the Pavilion is expected to open in 2020.

Depreciation expense for the years ended December 31, 2018 and 2017 was \$79,279 and \$64,991, respectively.

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

NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 4 – Long-Term Debt

Long-term debt at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable to bank, 5.25%, \$1,980 monthly including interest, due October 2023, secured by Organization assets	(A) \$ 99,680	\$ 116,939
Less current maturities	<u>(18,980)</u>	<u>(15,821)</u>
	<u>\$ 80,700</u>	<u>\$ 101,118</u>

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

Long-term debt maturities are as follows:

2019	\$ 18,980
2020	20,001
2021	21,077
2022	22,211
2023	<u>17,411</u>
	<u>\$ 99,680</u>

Total interest expense for the years ended December 31, 2018 and 2017 was \$5,654 and \$6,352, respectively.

Note 5 – Net Assets

As further discussed in Note 6, net assets without donor restrictions of \$77,997 and \$84,944, respectively, have been designated by the board for long-term general benefit of the Organization and are invested at the Louisville Community Foundation, Inc.

As of December 31, 2018 and 2017, there are no net assets with donor restrictions. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions		
Retreat Center Development	<u>\$ 75,000</u>	<u>\$834,238</u>

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 6 – Fair Value Measurements and Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc.

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, 2018 and 2017, 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.

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

NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 6 – Fair Value Measurements and Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc. (Continued)

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

Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc.

Valued at the net asset value (NAV) of units held by the Organization at year-end. The NAV, as provided by Louisville Community Foundation, Inc. (Foundation) is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the Foundation less its liabilities. The practical expedient is not used when it is determined to be probable that the Foundation will sell the investment for an amount different than the reported NAV.

In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value of these investments at December 31, 2018 and 2017 was \$77,997 and \$84,944, respectively. There were no other investments measured at fair value.

The following sets forth a summary of the assets reported at NAV:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>December 31, 2018</u>				
Beneficial interest in funds held at the Louisville Community Foundation, Inc.	<u>\$ 77,997</u>	N/A	Daily	None
<u>December 31, 2017</u>				
Beneficial interest in funds held at the Louisville Community Foundation, Inc.	<u>\$ 84,944</u>	N/A	Daily	None

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.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 with Comparative Totals for 2017 (as Restated)

Note 6 – Fair Value Measurements and Beneficial Interest in Funds Held at the Louisville Community Foundation, Inc. (Continued)

The Organization has placed board designated funds with Louisville Community Foundation, Inc. (Foundation) under an agency endowment agreement and is not restricted for a particular purpose. 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. The Organization does not have a spending policy associated with the funds at the Foundation, but intends to invest the funds for long-term benefit of the Organization. The change in value for the 2018 and 2017 related to the investment income (loss) net of administrative expenses. There were no amounts distributed from the Foundation for 2018 and 2017.

As these agency 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.

The Foundation can exercise variance power and modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations.

Note 7 – Major Donors

For the year ended December 31, 2018, approximately 28 percent of the Organization's contribution revenues were provided by two contributors. For the year ended December 31, 2017, there were no major donors exceeding ten percent of total revenue.

Note 8 – Prior Period Adjustment

During the year ended December 31, 2018, a prior period adjustment was identified. A portion of the funds at the Foundation, \$76,174, were improperly classified as with donor restriction, rather than without donor restriction. The prior period adjustment did not change net assets in total or change in net assets from the amounts previously reported. However, net assets without donor restriction increased by \$76,174 and net assets with donor restriction decreased by \$76,174. The prior period adjustment was made in accordance with accounting principles generally accepted in the United States of America.