

Disabled American Veterans (DAV) Charitable Service Trust

Financial Statements as of and for the Years
Ended December 31, 2010 and 2009, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Disabled American Veterans (DAV)
Charitable Service Trust:

We have audited the accompanying statements of financial position of Disabled American Veterans (DAV) Charitable Service Trust (the "Trust") as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Trust at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 31, 2011

DISABLED AMERICAN VETERANS (DAV) CHARITABLE SERVICE TRUST

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 979,121	\$ 1,052,792
INTEREST AND DIVIDENDS RECEIVABLE	32,635	34,867
CAMPAIGNS' PLEDGES RECEIVABLE — Net of allowance for uncollectible pledges of \$519,864 in 2010 and \$528,501 in 2009	423,549	410,812
PREPAID EXPENSES AND OTHER	21,343	16,117
INVESTMENTS — Includes charitable gift annuity reserve balances of \$7,247,097 and \$6,941,576 in 2010 and 2009, respectively	<u>16,921,984</u>	<u>15,021,154</u>
TOTAL	<u>\$ 18,378,632</u>	<u>\$ 16,535,742</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable — DAV	\$ 253,741	\$ 238,259
Accounts payable — other	2,349	278
Annuity payment liability	<u>4,490,190</u>	<u>4,463,431</u>
Total liabilities	4,746,280	4,701,968
UNRESTRICTED NET ASSETS	<u>13,632,352</u>	<u>11,833,774</u>
TOTAL	<u>\$ 18,378,632</u>	<u>\$ 16,535,742</u>

See notes to financial statements.

DISABLED AMERICAN VETERANS (DAV) CHARITABLE SERVICE TRUST

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Unrestricted	
	2010	2009
SUPPORT AND REVENUE:		
Contributions — net of assessment fees and provision for uncollectible pledges of \$514,979 in 2010 and \$545,839 in 2009	\$ 4,547,274	\$ 4,185,437
Contributions of charitable gift annuities — net	122,247	276,704
Bequests	306,559	752,944
Interest and dividend income — net	182,250	213,773
Loss on sale of investment securities	<u>(190,985)</u>	<u>(238,885)</u>
Total support and revenue	<u>4,967,345</u>	<u>5,189,973</u>
EXPENSES:		
Program services	3,768,030	3,786,152
Management and general	67,205	67,445
Fundraising	<u>215,868</u>	<u>197,318</u>
Total expenses	<u>4,051,103</u>	<u>4,050,915</u>
CHANGE IN NET ASSETS BEFORE CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS	916,242	1,139,058
CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS	<u>882,336</u>	<u>1,382,644</u>
CHANGE IN NET ASSETS	1,798,578	2,521,702
NET ASSETS — Beginning of year	<u>11,833,774</u>	<u>9,312,072</u>
NET ASSETS — End of year	<u>\$ 13,632,352</u>	<u>\$ 11,833,774</u>

See notes to financial statements.

DISABLED AMERICAN VETERANS (DAV) CHARITABLE SERVICE TRUST

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
EXPENSES:								
Allocations to charitable programs	\$3,675,925	\$ -	\$ -	\$3,675,925	\$3,700,733	\$ -	\$ -	\$3,700,733
Grant proposal processing	44,655			44,655	38,484			38,484
Administrative charges		29,770	171,122	200,892		25,656	167,114	192,770
Travel		9,032		9,032		14,266		14,266
Advertising	24,716	1,648	6,591	32,955	23,993	1,600	6,398	31,991
Printing, postage, and supplies	6,310	6,310	26,091	38,711	6,124	6,124	14,238	26,486
Legal fees		815	6,840	7,655			6,840	6,840
Professional fees	14,440	14,440		28,880	15,364	15,364		30,728
Insurance	1,984	1,984		3,968	1,454	1,454		2,908
Other expenses		3,206	5,224	8,430		2,981	2,728	5,709
TOTAL EXPENSES	<u>\$3,768,030</u>	<u>\$67,205</u>	<u>\$215,868</u>	<u>\$4,051,103</u>	<u>\$3,786,152</u>	<u>\$67,445</u>	<u>\$197,318</u>	<u>\$4,050,915</u>

See notes to financial statements.

DISABLED AMERICAN VETERANS (DAV) CHARITABLE SERVICE TRUST

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,798,578	\$ 2,521,702
Noncash contributions	(173,396)	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized appreciation of investments	(882,336)	(1,382,644)
Loss on sale of investment securities	190,985	238,885
Changes in operating assets and liabilities:		
Interest and dividends receivable	2,232	22,237
Campaigns' pledges receivable	(12,737)	31,839
Prepaid expenses and other	(5,226)	3,985
Accounts payable — DAV and other	17,553	23,095
	<u>935,653</u>	<u>1,459,099</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(94,922,809)	(6,642,987)
Proceeds from the sale of investments	93,886,726	5,231,165
	<u>(1,036,083)</u>	<u>(1,411,822)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions reserved for investment subject to annuity agreement	815,752	809,296
Payments to annuitants	(788,993)	(764,443)
	<u>26,759</u>	<u>44,853</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(73,671)	92,130
CASH AND CASH EQUIVALENTS — Beginning of year	<u>1,052,792</u>	<u>960,662</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 979,121</u>	<u>\$ 1,052,792</u>

See notes to financial statements.

DISABLED AMERICAN VETERANS (DAV) CHARITABLE SERVICE TRUST

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION

Disabled American Veterans (DAV) Charitable Service Trust (the “Trust”) is a not-for-profit service organization formed under the laws of the District of Columbia for the purpose of receiving and disbursing funds for the betterment and improvement of the nation’s disabled veterans and their families.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements — The accompanying financial statements have been prepared on the accrual basis of accounting.

New Accounting Standards Adopted — The accounting standard initially adopted in the 2010 financial statements described below affected certain note disclosures but did not impact the statement of financial position or statement of activities.

Fair Value Measurements and Disclosures — In January 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures*, which amends Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (originally issued as FASB Statement No. 157, *Fair Value Measurements*), adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures.

Cash and Cash Equivalents — The Trust considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents and are stated at cost, which approximates fair value. The earnings credit received on the Trust’s checking accounts were \$2,011 and \$1,326 in 2010 and 2009, respectively. The Trust maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. The Trust has not experienced any losses in such accounts.

Income Recognition — In 2010, the Trust was a member of Independent Charities of America (ICA) and Military, Veterans & Patriotic Service Organizations of America (MVPSOA). ICA and MVPSOA are charitable agency federations, certified by the U.S. Office of Personnel Management (OPM) to participate in the annual Combined Federal Campaigns (CFC), as well as state and corporate workplace giving campaigns. The Trust recognizes contribution revenue as an increase in unrestricted net assets when notification of the campaign designations is received and also recognizes an allowance for uncollectible pledges. Pledge receivables that are outstanding for more than one year are written off in their entirety. Pledges receivable of \$423,549 are expected to be received in 2011. Amounts received from accounts previously written off are recognized as contribution revenue when received.

As a member of MVPSOA during 2010 and 2009, the Trust was assessed a portion of MVPSOA’s annual operating budget based on the relative amount of total pledges made to the Trust compared with the sum of all member agency pledges. Pledges designated to MVPSOA (versus a member agency) and other revenue, such as interest income, are shared among all member agencies in this same proportion. Therefore, if MVPSOA’s revenue exceeds expenses, the member agencies share the excess income. This

excess income is distributed in the following year. The Trust recognizes such distribution as an increase in unrestricted net assets when received. The Trust received \$179,654 and \$174,442 in 2010 and 2009, respectively, for excess income recognized by MVPSOA in 2009 and 2008.

Contributions and Bequests — Contributions and bequests received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. The Trust recognizes contributions and bequests with donor-imposed restrictions that are met in the same period as unrestricted contributions and bequests. The Trust received noncash contributions of \$173,396 in 2010 and \$18,575 in 2009.

Income Taxes — As a not-for-profit service organization, the Trust has received a determination from the Internal Revenue Service that it is exempt from federal income tax as a 501(c)(3) organization. Contributions made to the Trust are tax deductible by the contributor.

Accounting for Uncertainty in Income Taxes — ASC Topic 740, *Income Taxes*, clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The Trust applies ASC Topic 740 and notes no effect on its financial statements.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVESTMENTS IN SECURITIES

Investments include investment of contributions and charitable gift annuity agreements (see Note 6). Investments are recorded at fair value. The fair value of the Trust's investments is determined based on the quoted market prices of the related securities. Gains and losses on the sale of investment securities are recognized based upon the specific identification method and are reflected as a separate component of revenue for the investments. The Trust's policy is to report cash and cash equivalents within its trust accounts as investments.

The cost and market value of investments and the unrealized (depreciation) appreciation at December 31, 2010 and 2009, are summarized below:

	Cost	Market	Unrealized (Depreciation) Appreciation
2010			
Cash	\$ 628	\$ 628	\$ -
Money market investments	590,361	590,361	-
Other short-term investments — variable rate notes	4,841,140	4,840,454	(686)
U.S. government securities and corporate bonds	4,882,009	4,915,524	33,515
Common stocks	3,886,980	4,670,215	783,235
Mutual funds	<u>1,608,458</u>	<u>1,904,802</u>	<u>296,344</u>
Total	<u>\$ 15,809,576</u>	<u>\$ 16,921,984</u>	<u>\$ 1,112,408</u>
2009			
Cash	\$ 5,294	\$ 5,294	\$ -
Money market investments	4,537,004	4,537,004	-
Other short-term investments — variable rate notes	296,100	296,100	-
U.S. government securities and corporate bonds	4,206,182	4,251,637	45,455
Common stocks	3,908,598	4,008,767	100,169
Mutual funds	<u>1,837,904</u>	<u>1,922,352</u>	<u>84,448</u>
Total	<u>\$ 14,791,082</u>	<u>\$ 15,021,154</u>	<u>\$ 230,072</u>

Interest and dividend income is composed of interest and dividend income of \$182,250 and \$213,773, net of fees paid to trustees of \$51,795 and \$46,923, in 2010 and 2009, respectively.

4. FAIR VALUE MEASUREMENTS

In accordance with fair value measurements and disclosures, the Trust categorized its financial assets based on

- quoted prices in active markets for identical instruments (Level 1)
- quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets (Level 2)

At no time during 2010 did the Trust have any financial assets requiring the use of inputs that are unobservable and significant to the overall fair value measurement (Level 3). The major categories for debt and equity securities are determined on the basis of the nature and risks of the investments. There were no significant transfers between Level 1 and Level 2.

5. RELATED-PARTY TRANSACTIONS

DAV personnel assist the Trust on a limited basis in administering its business operations, fundraising, and grant programs. For these personnel services, the Trust reimbursed DAV \$240,360 and \$231,254, in 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Trust owed DAV \$253,741 and \$238,259, respectively. DAV provides the Trust with the use of facilities and equipment at no charge.

In 2010 and 2009, the Trust granted \$645,000 and \$650,000, respectively, to the DAV National Service Foundation, Columbia Trust Fund for the DAV National Transportation Network Van Grant Program.

In 2010, the Trust distributed the following in support of DAV programs and services:

National Disabled Veterans Winter Sports Clinic	\$ 33,000
Mobile Service Office Program	350,000
Jesse Brown Youth Scholarship Program	25,000
National Transportation Network	200,000
Assistance to disabled veterans and their families	74,615

In 2009, the Trust distributed the following in support of DAV programs and services:

National Disabled Veterans Winter Sports Clinic	\$ 38,000
Mobile Service Office Program	1,000,000
Jesse Brown Youth Scholarship Program	25,000
National Transportation Network	200,000
Assistance to disabled veterans and their families	163,980

In performing the duties of their positions, DAV's National Commander and National Adjutant serve on the Board of Directors of the Trust.

6. ANNUITY PAYMENT LIABILITY

The Trust enters into charitable gift annuity agreements with donors. In the statements of activities, contributions of charitable gift annuities of \$122,247 and \$276,704 for the years ended December 31, 2010 and 2009, respectively, is net of \$375,681 and \$283,718, respectively, of changes in activity related to such split interest agreements. The Trust recognizes an annuity payment liability as the present value of the future cash flows expected to be paid to the donors and their beneficiaries using a discount rate of 5%, as of December 31, 2010 and 2009.

There are various state statutes and regulations that govern not-for-profit entities that enter into charitable gift annuity agreements with donors. As required by various state statutes and regulations, the Trust segregates the deposit of charitable gift annuity proceeds and reserves a portion for fulfillment of future annuity obligations. The required minimum balance of the reserve account is maintained and invested in accordance with applicable state statutes, the fair market value of which is \$5,524,475 and \$5,214,998, as of December 31, 2010 and 2009, respectively.

In addition to this reserve account, the Trust is required by California and Tennessee statutes to maintain segregated reserves for future obligations to charitable gift annuity donors residing in California and Tennessee. The fair market value for the California reserve account is \$1,688,391 and \$1,726,578, as of December 31, 2010 and 2009, respectively. The fair market value for the Tennessee reserve account (new in 2010) is \$34,231 as of December 31, 2010. The minimum required balance of the segregated accounts for California and Tennessee donors is calculated and invested in accordance with applicable California and Tennessee statutes and regulations.

The Trust also maintains the minimum amount of unrestricted net assets as required by any state for the acceptance of charitable gift annuities, which is \$1,000,000. The total unrestricted net assets that are subject to state statutes or regulations (calculated as the reserve funds (investments), less the annuity payment liability) amounted to \$2,756,907 and \$2,478,145, as of December 31, 2010 and 2009, respectively.

7. SUBSEQUENT EVENTS

The Trust evaluated subsequent events through March 31, 2011, which is the date the financial statements were available for issuance.

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