

DAV (Disabled American Veterans) Charitable Service Trust

Financial Statements as of and for the
Year Ended December 31, 2023, and
Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of DAV (Disabled American Veterans) Charitable Service Trust (the "Trust"), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cashflows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as of December 31, 2023, and the results of its operations and its cash flows for the year 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 (GAAS). 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 the Trust 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 the Trust's ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS 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 GAAS, 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 Trust'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 the Trust'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.

Deloitte + Touche LLP

April 9, 2024

DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2023

ASSETS

CASH	\$ 6,158,220
INTEREST AND DIVIDENDS RECEIVABLE	126,019
ACCOUNTS RECEIVABLE	247,347
CAMPAIGNS' PLEDGES RECEIVABLE—Net of allowance for uncollectible pledges of \$162,141	95,667
PREPAID EXPENSES AND OTHER	16,884
INVESTMENTS—Includes charitable gift annuity reserve balance of \$6,642,373	55,220,280
SOFTWARE—Net	<u>20,992</u>
TOTAL	<u>\$ 61,885,409</u>

LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS

LIABILITIES:

Accounts payable—Disabled American Veterans	\$ 88,074
Accounts payable—other	29,800
Annuity payment liability	<u>3,435,160</u>
Total liabilities	<u>3,553,034</u>

NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

Without donor restrictions	58,312,875
With donor restrictions	<u>19,500</u>
Total net assets	<u>58,332,375</u>

TOTAL	<u>\$ 61,885,409</u>
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See notes to financial statements.

DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Contributions—net of assessment fees and provision for uncollectible pledges of \$167,422	\$ 7,297,980	\$ 1,179,972	\$ 8,477,952
Contributions of charitable gift annuities	251,270		251,270
Bequests	2,995,381	6,962,990	9,958,371
Net investment return	8,418,047		8,418,047
Net assets released from restrictions	<u>8,206,071</u>	<u>(8,206,071)</u>	<u>-</u>
Total support and revenue	<u>27,168,749</u>	<u>(63,109)</u>	<u>27,105,640</u>
EXPENSES:			
Program services	21,579,244		21,579,244
Management and general	168,817		168,817
Fundraising	<u>112,106</u>		<u>112,106</u>
Total expenses	<u>21,860,167</u>	<u>-</u>	<u>21,860,167</u>
CHARITABLE GIFT ANNUITY VALUATION ADJUSTMENT	<u>65,453</u>		<u>65,453</u>
CHANGE IN NET ASSETS	5,374,035	(63,109)	5,310,926
NET ASSETS—Beginning of year	<u>52,938,840</u>	<u>82,609</u>	<u>53,021,449</u>
NET ASSETS—End of year	<u>\$ 58,312,875</u>	<u>\$ 19,500</u>	<u>\$ 58,332,375</u>

See notes to financial statements.

DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2023

	Program Services	Management and General	Fundraising	Total
EXPENSES:				
Allocations to charitable programs	\$ 21,466,149	\$ -	\$ -	\$ 21,466,149
Administrative charges		44,214	88,731	132,945
Professional fees	17,125	49,901		67,026
Grant proposal processing	66,321			66,321
Banking fees		25,910		25,910
Advertising	16,184	1,079	4,316	21,579
Maintenance		18,848		18,848
Printing, postage, and supplies	3,685	9,584	344	13,613
Travel		12,651		12,651
Legal fees			6,844	6,844
Depreciation	7,736			7,736
Insurance	2,044	2,044		4,088
Other expenses	<u> </u>	<u>4,586</u>	<u>11,871</u>	<u>16,457</u>
TOTAL EXPENSES	<u>\$ 21,579,244</u>	<u>\$ 168,817</u>	<u>\$ 112,106</u>	<u>\$ 21,860,167</u>

See notes to financial statements.

DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 5,310,926
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Noncash investment contributions	(17,110)
Net change in appreciation of investments	(7,357,784)
Net gain on sale of investments	601,723
Depreciation	7,736
Charitable gift annuity valuation adjustment	(65,453)
Changes in operating assets and liabilities:	
Interest and dividends receivable	(66,094)
Accounts receivable	485,322
Campaigns' pledges receivable	(14,407)
Prepaid expenses and other	(761)
Accounts payable—DAV and other	16,383
Annuity payment liability	<u>(251,270)</u>
Net cash used in operating activities	<u>(1,350,789)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(29,651,334)
Proceeds from the sale of investments	<u>31,149,483</u>
Net cash provided by investing activities	<u>1,498,149</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from gift annuity agreement contributions	620,000
Payments to annuitants	<u>(465,607)</u>
Net cash provided by financing activities	<u>154,393</u>
NET INCREASE IN CASH	301,753
CASH— Beginning of year	<u>5,856,467</u>
CASH— End of year	<u>\$ 6,158,220</u>

See notes to financial statements.

DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023

1. ORGANIZATION

DAV (Disabled American Veterans) Charitable Service Trust (the “Trust”) is a not-for-profit service organization formed under the laws of the District of Columbia for the single purpose of empowering veterans to lead high-quality lives with respect and dignity. To carry out this responsibility, the Trust supports physical and psychological rehabilitation programs; enhances research and mobility for veterans with amputations and spinal cord injuries; benefits aging veterans; aids and shelters homeless veterans; and evaluates and addresses the needs of veterans wounded in recent wars and conflicts and their caregivers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements—The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

New Accounting Standards—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses*, which is included in ASC Topic 326, *Measurement of Credit Losses on Financial Instruments*. The new standard requires a financial asset (or group of financial assets) measured at amortized cost basis, such as accounts receivables, to be presented at the net amount expected to be collected. Investments held at fair value where the change in fair value is reported through the change in net assets, as occurs at the Trust, as well as pledge receivables, are excluded from the scope of ASU 2016-13. The new standard revises the accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. The adoption of ASU 2016-13 did not have a material impact on the financial statements and related disclosures. There were no credit losses recorded for the year-ended December 31, 2023.

Cash—The Trust considers all highly liquid 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 was \$230,535 in 2023, which is included in support and revenue on the statement of activities within Net investment returns. 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.

Revenue Recognition—The Trust is a member of Independent Charities of America (ICA) and Military Family & Veterans Service Organizations of America (MFVSOA). ICA and MFVSOA are charitable agency federations, certified by the US Office of Personnel Management (OPM) to participate in the annual combined federal campaigns, as well as state and corporate workplace giving campaigns.

The Trust recognizes contribution revenue as an increase in net assets without donor restrictions 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. The Trust also evaluates pledges receivable for any amounts to be specifically reserved. Pledges receivable of \$95,667 are expected to be received in 2024. Amounts received from accounts previously written off are recognized as contribution revenue when received.

As a member of MFVSOA during 2023, the Trust was assessed a portion of MFVSOA'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 MFVSOA (versus a member agency) and other revenue, such as interest income, are shared among all member agencies in this same proportion. Therefore, if MFVSOA'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 net assets without donor restrictions when received. The Trust received \$5,898 in 2023, included in contributions within the statement of activities, for excess income recognized by MFVSOA in 2022.

Investments—Investments include investment of contributions and charitable gift annuity agreements (see Note 7). Investments are recorded at fair value, and realized and unrealized gains and losses are reflected within the net investment return, in the statement of activities. The fair value of the Trust's investments is determined based on the quoted market prices of the related securities or quoted prices in active markets for instruments that are similar, or model-derived valuations, in which all significant inputs and significant value drivers are observable in active markets. Gains and losses on the sale of investment securities are recognized based upon the specific identification method and are reflected in net investment return. The Trust's policy is to report its cash and cash equivalents within its investment trust accounts, which include money market funds, within investments on the statement of financial positions.

Contributions and Bequests—The Trust recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give—that is, those with a measurable performance or other barrier and a right of return—are not recognized until the conditions on which they depend have been met.

Contributions and bequests received are recorded as support with and without donor restrictions depending on the existence and nature of any donor restrictions. The Trust received stock contributions at a fair market value of \$17,110, included in contributions within the statement of activities, in 2023.

Contributed Nonfinancial Assets—For the year ended December 31, 2023, no contributed nonfinancial assets were received. Should nonfinancial assets be received, they would be separately recognized within the statement of activities and disclosed within the notes to the financial statements.

Allocation of Expenses—The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Trust. Those expenses include grant proposal processing, administrative charges, professional fees, travel, printing, postage and supplies, insurance, advertising and other expenses. All expenses are allocated based on estimates of time and effort toward each program or supporting service. Allocation estimates are reviewed annually based on the specific expense and adjusted accordingly.

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 as provided in Section 170 of the Internal Revenue Code.

Use of Estimates—The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. NET ASSETS RELEASED FROM DONOR RESTRICTION

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors. The net assets released from restrictions in 2023 are as follows:

Purpose restrictions accomplished:	
To Disabled American Veterans	\$ 8,041,592
To DAV Departments and Chapters	13,404
To National Service Foundation Program services	<u>151,075</u>
Net assets released from donor restrictions	<u>\$ 8,206,071</u>

4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Trust's working capital and cash flows are attributable to the contributions, net of assessment fees and uncollectible pledges, received throughout the year. As of December 31, 2023, the Trust's financial assets (total assets, less prepaid expenses and software) totaled \$61,847,533. All financial assets with the exception of the Charitable Gift Annuity Reserve investment of \$6,642,373 as of December 31, 2023, are available to fund expenditures within one year following the Statement of Financial Position date.

The Trust has a policy to structure its financial assets to be available as its fundraising costs and general and administrative expenses come due. In addition, the Trust awards grants to board-approved applicants. As part of its liquidity management, the Trust invests cash in excess of daily requirements in various short-term investments. The short-term investments are invested for capital preservation and liquidity for cash flow requirements, such as money market funds, certificates of deposit, and commercial paper.

The Trust's long-term investment portfolio is for the deposit of proceeds and payment of obligations from charitable gift annuities. The portfolio is invested in marketable fixed-income and equity securities, index and actively managed mutual funds, and exchange traded funds. A portion of the balance is invested as required in accordance with governing regulatory agencies to pay the long-term charitable gift annuity beneficiary obligations. See Note 7 for further information. The remaining is invested with the intent of providing capital appreciation and total return to cover future expenditures and grants awarded.

5. FAIR VALUE MEASUREMENTS

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. This framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows: Level 1, which refers to securities valued using unadjusted quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market, but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Trust did not hold any financial assets requiring the use of inputs that are unobservable and significant to the overall fair value measurement (Level 3) during 2023.

Asset Valuation Techniques—Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets recorded at fair value. There have been no changes in the methodologies used at December 31, 2023.

Cash equivalents, composed of money market funds, are categorized as Level 1, and are valued at cost, which approximates fair value. The money market funds represent the Trust's shares in a registered investment company's fund.

US government securities (US Treasury notes), common stocks, and exchange-traded funds (ETFs), categorized as Level 1, are valued at the closing price reported in the active market in which the individual security is traded.

Certificates of deposit and commercial paper categorized as Level 2 are valued at fair value, which approximates amortized cost.

US government agency notes and municipal and corporate bonds, categorized as Level 2, are valued using third-party pricing services. These services may use, for example, model-based pricing methods that utilize observable market data as inputs. Broker-dealer bids or quotes of securities with similar characteristics may also be used.

Shares of registered investment companies (mutual funds), categorized as Level 1, are valued at quoted market prices that represent the net asset value of shares held at year-end.

The major categories of the Trust's financial assets measured at fair value on a recurring basis as of December 31, 2023, are as follows:

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Total
Cash equivalents	\$ 3,006,352	\$ -	\$ 3,006,352
US government securities	2,520,370		2,520,370
Common stocks	1,761,971		1,761,971
Certificates of deposit		1,307,084	1,307,084
US government agency notes		743,264	743,264
Municipal bonds		251,032	251,032
Corporate bonds		4,813,769	4,813,769
Mutual funds/ETFs:			
Domestic equity funds/ETFs	28,240,959		28,240,959
Domestic fixed income funds	477,673		477,673
International fixed income funds	2,204,892		2,204,892
International equity funds	9,892,914		9,892,914
	<u>40,816,438</u>	<u>-</u>	<u>40,816,438</u>
Total mutual funds/ETFs			
	<u>40,816,438</u>	<u>-</u>	<u>40,816,438</u>
Total assets	<u>\$ 48,105,131</u>	<u>\$ 7,115,149</u>	<u>\$ 55,220,280</u>

Fair value of the annuity payment liability of \$3,435,160, classified as Level 2 within the fair value hierarchy, as of December 31, 2023, was calculated as the net present value of expected annuity payments based on the following significant assumptions:

- (1) The discount rate expected to reflect yields available on high-quality investments; and
- (2) The mortality assumption based on expected annuitant longevity.

6. RELATED-PARTY TRANSACTIONS

During 2023, DAV personnel assisted the Trust on a limited basis in administering its business operations, fundraising, and grant programs. For these personnel services, the Trust reimbursed DAV \$199,266 in 2023. As of December 31, 2023, the Trust owed DAV \$88,074. DAV provides the Trust with the use of facilities, equipment, and occasional magazine space at no charge.

In 2023, the Trust distributed the following in support of DAV programs and services:

Assistance to disabled veterans and their families	\$ 7,325,483
DAV Employment Initiative	1,863,805
DAV "Just B Kids" Scholarship	420,000
National Disabled Veterans Winter Sports Clinic	312,500
Transportation Network	200,000
Veterans retreats	150,000
DAV Night Out Program	33,000
Jesse Brown Youth Scholarship Program	25,000
Patriot Bootcamp	25,000
DAV National Convention	15,000
DAV Disaster Relief	5,000
DAV Veteran Victory Challenge	2,500

In performing the duties of their positions, DAV's National Commander and National Adjutant serve on the Board of Directors of the Trust. In performing the duties of their positions as a Trust Director, some members also serve on the DAV National Service Foundation Board of Directors and the Disabled Veterans' Life Memorial Foundation's Board of Directors.

In 2023, the Trust made contributions of \$1,233,446, to the DAV National Service Foundation's Columbia Trust for the DAV Transportation Network Vehicle Grant Program.

7. ANNUITY PAYMENT LIABILITY

The Trust enters into charitable gift annuity agreements with donors. In the statement of activities, contributions of charitable gift annuities of \$251,270 for the year ended December 31, 2023, are the result of the portion of gift annuity contributions that exceed the annuity payment liability estimated at the date of the contribution.

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, 2023.

In 2023, the Trust used the mortality table IAR-2012 in determining the liability to reflect the most up-to-date expectations with regard to longevity for individual annuitant lives.

In 2023, the Charitable Gift Annuity Valuation Adjustment of \$65,453, which resulted in an increase of new assets, consists of:

- Gain from deceased annuitants of \$359,674, and
- Other actuarial adjustments of \$(294,220), which are primarily related to discounting of the liability during the year ended December 31, 2023.

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 \$5,459,330 as of December 31, 2023.

In addition to this reserve account, the Trust is required by California statutes to maintain segregated reserves for future obligations to charitable gift annuity donors residing in California. The fair market value for the California reserve account is \$1,183,042 as of December 31, 2023. The minimum required balance of the segregated accounts for California donors is calculated and invested in accordance with applicable California statutes and regulations.

The Trust also maintains the minimum amount of net assets without donor restrictions as required by any state for the acceptance of charitable gift annuities, which is \$1,000,000. The total net assets without donor restrictions that are subject to state statutes or regulations (calculated as the reserve funds (investments), less the annuity payment liability) amounted to \$3,207,213 as of December 31, 2023.

8. SUBSEQUENT EVENTS

No other events have occurred after December 31, 2023, but before April 9, 2024, the date the financial statements were available to be issued, that require consideration as adjustments to, or disclosures in, the financial statements.

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