# DAV (Disabled American Veterans) Charitable Service Trust

Financial Statements as of and for the Year Ended December 31, 2019, and Independent Auditors' Report

Deloitte & Touche LLP
250 East 5th Street
Suite 1900
Cincinnati, OH 45202-5109
USA

Tel:+1 513 784 7100
Fax:+1 513 784 7204
www.deloitte.com

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of DAV (Disabled American Veterans) Charitable Service Trust (the "Trust"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows 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.

**Auditors' 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 from 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 Trust'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 Trust'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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2019, 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.

Deloitte & Touche LLP

April 14, 2020

# DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

## STATEMENT OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2019

### ASSETS

| | |
|---|---|
| CASH | $ 5,350,564 |
| INTEREST AND DIVIDENDS RECEIVABLE | 68,894 |
| ACCOUNTS RECEIVABLE | 254,264 |
| CAMPAIGNS' PLEDGES RECEIVABLE—Net of allowance for uncollectible pledges of $238,151 | 97,889 |
| PREPAID EXPENSES AND OTHER | 36,707 |
| INVESTMENTS—Includes charitable gift annuity reserve balance of $6,932,019 | 33,437,590 |
| SOFTWARE—Net | 4,312 |
| TOTAL | $39,250,220 |

### LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTIONS

| | |
|---|---|
| LIABILITIES: | |
| Accounts payable—Disabled American Veterans | $ 167,296 |
| Accounts payable—other | 304,240 |
| Annuity payment liability | 4,645,865 |
| Total liabilities | 5,117,401 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | 34,132,819 |
| TOTAL | $39,250,220 |

See notes to financial statements.

# DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| SUPPORT AND REVENUE: | | | |
| Contributions—net of assessment fees and provision for uncollectible pledges of $223,582 | $ 6,812,217 | $ 1,190,453 | $ 8,002,670 |
| Contributions of charitable gift annuities | 640,375 | | 640,375 |
| Bequests | 1,368,560 | 208,566 | 1,577,126 |
| Net assets released from restrictions | 1,399,019 | (1,399,019) | - |
| Net investment return | 4,747,337 | | 4,747,337 |
| Total support and revenue | 14,967,508 | - | 14,967,508 |
| EXPENSES: | | | |
| Program services | 8,865,886 | | 8,865,886 |
| Management and general | 198,882 | | 198,882 |
| Fundraising | 127,218 | | 127,218 |
| Total expenses | 9,191,986 | - | 9,191,986 |
| CHARITABLE GIFT ANNUITY VALUATION ADJUSTMENT | (122,522) | | (122,522) |
| CHANGE IN NET ASSETS | 5,653,000 | | 5,653,000 |
| NET ASSETS—Beginning of year | 28,479,819 | | 28,479,819 |
| NET ASSETS—End of year | $34,132,819 | $ - | $34,132,819 |

See notes to financial statements.

# DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

## STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2019

| | Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| EXPENSES: | | | | |
| Allocations to charitable programs | $ 8,758,750 | $ - | $ - | $ 8,758,750 |
| Grant proposal processing | 57,096 | | | 57,096 |
| Administrative charges | | 38,064 | 106,517 | 144,581 |
| Travel | 2,858 | 14,919 | | 17,777 |
| Advertising | 7,979 | 532 | 2,128 | 10,639 |
| Printing, postage, and supplies | 4,550 | 5,623 | 545 | 10,718 |
| Depreciation of software | 1,725 | | | 1,725 |
| Legal fees | | | 6,840 | 6,840 |
| Professional fees | 31,045 | 62,581 | | 93,626 |
| Insurance | 1,883 | 1,883 | | 3,766 |
| Banking fees | | 32,780 | | 32,780 |
| Maintenance | | 38,547 | | 38,547 |
| Other expenses | | 3,953 | 11,188 | 15,141 |
| TOTAL EXPENSES | $ 8,865,886 | $198,882 | $127,218 | $ 9,191,986 |

See notes to financial statements.

## DAV (DISABLED AMERICAN VETERANS) CHARITABLE SERVICE TRUST

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2019**

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in net assets | $ 5,653,000 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Noncash investment contributions | (120,606) |
| Change in net unrealized appreciation of investments | (3,814,625) |
| Depreciation of software | 1,725 |
| Charitable gift annuity valuation adjustment | 122,522 |
| Gain on sale of investment securities | (209,440) |
| Changes in operating assets and liabilities: | |
| Interest and dividends receivable | (31,530) |
| Accounts receivable | 86,311 |
| Campaigns' pledges receivable | (13,416) |
| Prepaid expenses and other | 5,897 |
| Accounts payable—DAV and other | (95,863) |
| Annuity payment liability | (640,375) |
| Net cash provided by operating activities | 943,600 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of investments | (26,648,687) |
| Proceeds from the sale of investments | 25,308,469 |
| Net cash used in investing activities | (1,340,218) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Proceeds from gift annuity agreement contributions | 1,416,017 |
| Payments to annuitants | (587,109) |
| Net cash provided by financing activities | 828,908 |
| NET INCREASE IN CASH | 432,290 |
| CASH—Beginning of year | 4,918,274 |
| CASH—End of year | $ 5,350,564 |

See notes to financial statements.

## 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 August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The effective date of ASU No. 2018-13 is for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Management is in the process of evaluating the impact on the financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. ASU No. 2017-08 amends guidance on the amortization period of premiums on certain purchased callable debt securities. The amendments shorten the amortization period of premiums on certain purchased callable debt securities to the earliest call date. The amendments should be applied on a modified retrospective basis through a cumulative effect adjustment to beginning retained earnings. The effective date of ASU No. 2017-08 is for annual reporting periods beginning after December 15, 2019. The ASU has not yet been adopted; however, it is not expected to have a material impact on the Trust's financial position, cash flows, or results of operations.

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 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 collectibility. Assets must be presented in the financial statements at the net amount expected to be collected. This standard will be effective for the annual financial statements beginning January 1, 2023. A modified retrospective approach is to be used for certain parts of this standard, while other parts are to be applied using a prospective approach. Management has not yet evaluated the impact of ASU No. 2016-13 on the financial statements.

**Newly Adopted Accounting Principles**—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for the Trust beginning January 1, 2019.

Analysis of various provisions of this standard resulted in no significant changes in the way the Trust recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a modified retrospective basis.

**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 $80,846 in 2019. 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 $97,889 are expected to be received in 2020. Amounts received from accounts previously written off are recognized as contribution revenue when received.

As a member of MFVSOA during 2019, 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 $16,129 in 2019, included in contributions within the statement of activities, for excess income recognized by MFVSOA in 2018.

**Investments**—Investments include investment of contributions and charitable gift annuity agreements (see Note 7). 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 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 as a separate component of revenue for the investments. The Trust's policy is to report cash and cash equivalents, which include money market funds, within its trust accounts as investments.

**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 noncash contributions at a fair market value of $120,606 in 2019.

**Allocation of Expenses**—The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include grant proposal processing and administrative charges, postage, printing, supplies, insurance, and advertising. 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 2019 are as follows:

| | |
|---|---|
| Purpose restrictions accomplished: | |
| To Disabled American Veterans | $1,354,608 |
| To DAV Departments and Chapters | 5,420 |
| To National Service Foundation | 2,350 |
| Program services | 36,641 |
| Net assets released from donor restrictions | $1,399,019 |

## 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, 2019, the Trust's financial assets (total assets, less prepaid expenses and software) totaled $39,209,201. All financial assets with the exception of the Charitable Gift Annuity Reserve investment of $6,932,019 as of December 31, 2019, 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 (ETF)s. 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 2019.

The Trust's policy is to recognize transfers between levels at the actual date of the event. There were no transfers during 2019.

**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, 2019.

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 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, 2019, are as follows:

| **Asset Category** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Total** |
|---|---|---|---|
| Cash and cash equivalents | $ 625,191 | $ - | $ 625,191 |
| Commercial paper | | 4,303,287 | 4,303,287 |
| US government securities | 1,823,092 | | 1,823,092 |
| Certificates of deposit | | 5,540,964 | 5,540,964 |
| US government agency notes | | 203,883 | 203,883 |
| Municipal bonds | | 401,056 | 401,056 |
| Corporate bonds | | 2,350,173 | 2,350,173 |
| Common stocks | 6,064,386 | | 6,064,386 |
| Mutual funds/ETFs: | | | |
| Domestic equity funds/ETFs | 7,221,583 | | 7,221,583 |
| International equity funds | 4,903,975 | | 4,903,975 |
| Total mutual funds/ETFs | 12,125,558 | - | 12,125,558 |
| Total assets | $ 20,638,227 | $ 12,799,363 | $ 33,437,590 |

Fair value of the annuity payment liability of $4,645,865, classified as Level 2 within the fair value hierarchy, as of December 31, 2019, 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 2019, 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 $201,677 in 2019. As of December 31, 2019, the Trust owed DAV $167,296. DAV provides the Trust with the use of facilities, equipment, and occasional magazine space at no charge.

In 2019, the Trust distributed the following in support of DAV programs and services:

| | |
|---|---|
| DAV Employment Initiative | $1,470,000 |
| Assistance to disabled veterans and their families | 738,846 |
| National Disabled Veterans Winter Sports Clinic | 318,150 |
| DAV "Just B Kids" Scholarship | 300,000 |
| Transportation Network | 218,000 |
| Veterans retreats | 150,000 |
| Jesse Brown Youth Scholarship Program | 45,000 |
| National Service Officer Programs—other | 6,038 |
| DAV Tee Tournament | 5,000 |

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 2019, the Trust granted $900,000 to the DAV National Service Foundation—Columbia Trust Fund for the DAV Transportation Network Vehicle Grant Program. In 2019, the Trust also provided $2,350 to the DAV National Service Foundation for use in assisting disabled veterans and their dependents.

## 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 $640,375 for the year ended December 31, 2019, 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, 2019.

In 2019, 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 2019, the Charitable Gift Annuity Valuation Adjustment of $(122,522) consists of:

- Gain from deceased annuitants of $294,050, and
- Other actuarial adjustments of $(416,572), which are primarily related to discounting of the liability during the year ended December 31, 2019.

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 $6,065,015 as of December 31, 2019.

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 $867,004 as of December 31, 2019. 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 $2,286,154 as of December 31, 2019.

## 8. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Trust’s financial position, cash flows, or results of operations. Other financial impact could occur though such potential impact is unknown at this time.

No other events have occurred after December 31, 2019, but before April 14, 2020, 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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