

SPIRIT OF AMERICA WORLDWIDE
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Spirit of America Worldwide

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Audited Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 17



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Independent Auditor's Report

To the Board of Directors
Spirit of America Worldwide
Arlington, Virginia

We have audited the accompanying financial statements of the **Spirit of America Worldwide** (a California nonprofit public benefit corporation), which comprise the Statement of Financial Position as of December 31, 2019 and the related Statements of Activities and Changes in Net Assets, 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.

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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Spirit of America Worldwide** as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
June 30, 2020

Spirit of America Worldwide

Statement of Financial Position

<i>December 31,</i>	2019
Assets	
Current assets	
Cash and cash equivalents	\$ 4,083,820
Investments	3,696
Grants and pledges receivable	1,875,000
Prepaid expenses and other current assets	44,600
Total current assets	6,007,116
Other assets	
Cash held for endowment	4,793
Investments held for endowment	117,295
Grants and pledges receivable, net of current portion and discount	3,375,000
Property and equipment, net	190,442
Total other assets	3,687,530
Total assets	\$ 9,694,646
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 3,896
Accrued liabilities	105,217
Total current liabilities	109,113
Net assets	
Without donor restrictions	3,543,074
With donor restrictions	6,042,459
Total net assets	9,585,533
Total liabilities and net assets	\$ 9,694,646

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Spirit of America Worldwide

Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions and grants	\$ 2,207,004	\$ 5,123,407	\$ 7,330,411
Contributed goods and professional services	59,928	138,149	198,077
Investment income	47,924	-	47,924
Net assets released from restrictions	3,477,129	(3,477,129)	-
Total support and revenue	5,791,985	1,784,427	7,576,412
Expenses			
Program services	3,648,678	-	3,648,678
Management and general	607,462	-	607,462
Fundraising	830,096	-	830,096
Total expenses	5,086,236	-	5,086,236
Change in net assets	705,749	1,784,427	2,490,176
Net assets, beginning of year	2,837,325	4,258,032	7,095,357
Net assets, end of year	\$ 3,543,074	\$ 6,042,459	\$ 9,585,533

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Spirit of America Worldwide

Statement of Functional Expenses

<i>Year Ended December 31, 2019</i>	Program Services	Management and General	Fundraising	Total Expenses
Salaries and fringe benefits	\$ 1,636,367	\$ 453,576	\$ 344,231	\$ 2,434,174
Goods distributed	1,041,030	-	-	1,041,030
Travel	425,908	14,943	113,700	554,551
Consulting services	94,733	23,865	245,876	364,474
Office expenses	86,992	12,993	68,713	168,698
Rent	92,817	24,287	19,231	136,335
Legal and accounting services	53,534	50,840	5,205	109,579
Information technology	54,468	14,157	23,006	91,631
Program equipment	79,701	-	-	79,701
Depreciation	36,090	9,444	7,477	53,011
Insurance	45,249	2,889	2,288	50,426
Taxes and licenses	1,789	468	369	2,626
Total Expenses	\$ 3,648,678	\$ 607,462	\$ 830,096	\$ 5,086,236
<i>Percent of total expenses</i>	<i>71.8%</i>	<i>11.9%</i>	<i>16.3%</i>	<i>100.0%</i>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Spirit of America Worldwide

Statement of Cash Flows

<i>Year Ended December 31,</i>	2019
Cash flows from operating activities	
Change in net assets	\$ 2,490,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	53,011
Realized and unrealized gain on investments	(15,393)
Change in present value discount on grants and pledges receivable	782
Decrease (increase) in:	
Grants and pledges receivable	(1,328,014)
Prepaid expenses and other current assets	5,251
Increase (decrease) in:	
Accounts payable	(92,808)
Accrued liabilities	8,196
Net cash provided by operating activities	1,121,201
Cash flows from investing activities	
Purchase of property and equipment	(114,920)
Purchase of investments	(20,633)
Proceeds from sales of investments	1,251,471
Net cash provided by investing activities	1,115,918
Net change in cash and cash equivalents	2,237,119
Cash and cash equivalents, beginning of year	1,851,494
Cash and cash equivalents, end of year	\$ 4,088,613

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Spirit of America Worldwide

Notes to the Financial Statements

1. Organization and significant accounting policies

Organization: Spirit of America Worldwide (“SOA” or the “Organization”) is a California nonprofit public benefit corporation located in Arlington, Virginia that provides humanitarian, civic, and economic assistance in direct response to needs identified by American military and civilian personnel. SOA adds the agility, innovativeness, and resources of the American private sector to the capabilities of the U.S. government and military in support of U.S. missions abroad. This support makes U.S. troops and diplomats safer and more successful in their missions and helps local people often not reached by large-scale aid programs. SOA also provides the American people a way to understand, connect with, and support the vital work of U.S. personnel serving abroad.

SOA makes a promise that 100% of a donation is used for the purpose specified by the donor, and, if it is not needed for the specified purposes, the donor will be offered a refund. For example, those who donate to projects featured on SOA’s web site are assured that all their funds will be used to pay for the needed assistance. Other SOA expenses (for example, salaries and administrative expenses) are funded by donors who make unrestricted gifts. The accompanying financial statements reflect SOA’s adherence to the 100% promise.

Basis of accounting: The accompanying financial statements of the Organization are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates: The preparation of financial statements in conformity with general accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures 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.

Cash and cash equivalents: The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Investments: Investments represent marketable securities that are stated at fair value. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes the Organization’s net realized and unrealized gains and losses on investments bought and sold as well as held during the year.

Spirit of America Worldwide

Notes to the Financial Statements

Fair value measurement: The Organization values its investments at fair value in accordance with a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the fair value methodologies used at December 31, 2019.

Grants and pledges receivable: Grants and pledges receivable are recorded when unconditionally awarded and are stated at the amount management expects to collect. For grants and pledges receivable collectible more than one year after the financial statement date, a discount is recorded against the face amount of the receivable. Management provides an allowance for uncollectible amounts through a provision of bad debt expense and an adjustment to valuation allowance based on its assessment of the current status of individual receivables. The Organization has determined that no allowance against grant and pledges receivable is necessary at December 31, 2019.

Grants and pledges receivable are anticipated to be paid as follows at December 31:

	2019
Within one year	\$ 1,875,000
One to five years	3,500,000
Total grants and pledges receivable	5,375,000
Less: discount	(125,000)
Grants and pledges receivable, net	\$ 5,250,000

The discount is calculated using rates between 1.86% and 2.63%. Rates are determined using a risk-adjusted treasury borrowing rate on the date the grant or pledge is awarded. The discount is amortized over the grant or pledge payment period to contribution revenue using the effective interest method.

Spirit of America Worldwide

Notes to the Financial Statements

Property and equipment: Acquisition of property and equipment in excess of \$1,000 is capitalized at cost or, if donated, at approximate fair value at the date of donation. Repairs and maintenance are charged to operations as incurred. Depreciation expense for property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 5 years. Depreciation expense for the year ended December 31, 2019 was \$53,011.

Impairment of long-lived assets: Long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. Long-lived assets held for sale are to be stated at the lower of cost or fair market value less costs to sell. The Organization has determined that no events occurred during the year ended December 31, 2019 that would give rise to impairment of its long-lived assets.

Classification of net assets: Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions: Net assets without donor restrictions represent the portion of expendable funds that are available to support the Organization's operations and are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by actions of the board of directors or may otherwise be limited by contractual agreements with outside parties.

Net assets with donor restrictions: Net assets with donor restrictions are subject to donor-imposed restrictions that limit the use of their contributions. Donor restrictions may result in either temporary or permanent restrictions. Temporary donor restrictions expire either by passage of time or when used for specified purposes. Permanent donor restrictions represent restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. At December 31, 2019, the Organization had net assets with temporary donor restrictions of \$5,942,459 and net assets with permanent donor restrictions of \$100,000. The net assets with permanent donor restrictions consist of one endowed gift.

Spirit of America Worldwide

Notes to the Financial Statements

Revenue recognition:

Contributions: Contributions are recognized when they are received, or unconditionally promised, or when conditions related to the contribution are satisfied. The Organization reports such support as donor-restricted if it is subject to time or donor-imposed purpose restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is satisfied, or both.

When a restriction on a contribution is met in the same period that the contribution was received, the contribution is reported in the Statement of Activities and Changes in Net Assets as a contribution without donor restrictions.

Contributed goods and professional services: The Organization receives contributed professional services and goods from corporations and individuals.

Contributed services are recognized if the services received a) increase or enhance long-lived assets or b) require specialized skills and would otherwise need to be purchased by the Organization if not contributed. Contributed services are recognized at the estimated fair value of the services received. During the year ended December 31, 2019, the Organization received \$58,142 in contributed professional services, mostly arising from pro-bono legal services.

Contributed goods are recognized when received at management's estimate of their fair value. Upon distribution, the goods are recorded as a decrease in either net assets with donor restrictions or net assets without donor restrictions, depending on the presence of any donor-imposed restrictions on their use. During the year ended December 31, 2019, the Organization received \$139,935 in contributed goods for use in its programs.

Income taxes: The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)3. The Organization generated no unrelated business income during 2019. Management has concluded that the Organization has maintained their exempt status.

Spirit of America Worldwide

Notes to the Financial Statements

Uncertainty in income taxes: The Organization evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2019, there are no accruals for uncertain tax positions. If applicable, the Organization records interest and penalties as a component of income tax expense. Tax years from 2016 through the current year remain open for examination by tax authorities.

Allocation of functional expenses: The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the membership services and supporting services benefited. During 2019, there was a one-time marketing expense allocated to Development and a development officer was hired, reducing the percentage allocation to Program expenses from 75% to 72%. Such allocations are determined by management on an equitable basis.

Expenses that are allocated include the following:

Expenses	Method of Allocation
Salaries and fringe benefits	Time and effort
Consulting services	Time and effort
Rent	Time and effort
Legal services	Time and effort
Information technology	Time and effort
Depreciation	Time and effort
Insurance	Time and effort

New accounting standard adopted during 2019: In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-08 (“ASU 2018-08”), *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard became effective for resource recipients for annual reporting periods beginning after December 15, 2018 and resource providers one year later. ASU 2018-08 was adopted by the Organization in 2019 and was applied to all agreements not completed as of January 1, 2019. The adoption of this standard did not have a material effect on the Organization’s financial statements.

Subsequent events: Management has evaluated subsequent events for disclosure in the financial statements through June 30, 2020, which is the date the financial statements were available to be issued.

Spirit of America Worldwide

Notes to the Financial Statements

- 2. Liquidity and availability of resources** 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 dated as of December 31, 2019, comprise the following:

Financial assets at year end:	
Cash and cash equivalents	\$ 4,088,613
Investments	120,991
Grants and pledges receivable, net	<u>5,250,000</u>
Total financial assets	<u>9,459,604</u>

Less amounts not available to be used within one year:

Donor restrictions:	
Temporary purpose restrictions	(192,459)
Temporary time restrictions (long-term)	(4,875,000)
Permanent restrictions	<u>(100,000)</u>
Total	<u>(5,167,459)</u>

Financial assets available to meet general expenditures over the next twelve months	\$ 4,292,145
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The Organization has an investment policy authorized by the Board of Directors that provides guidance and oversight for the management of cash and cash equivalents, and investments. The policy provides that the Organization maintain an adequate level of cash to meet ongoing operational and liquidity requirements.

- 3. Investments** The fair value of the Organization's investments is as follows:

December 31, 2019	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	No Quoted Prices in Active Markets nor Observable Inputs (Level 3)
Common stocks	\$ 3,696	\$ 3,696	\$ -	\$ -
Mutual funds – fixed income	56,615	56,615	-	-
Mutual funds – equities	<u>60,680</u>	<u>60,680</u>	-	-
Total	\$ 120,991	\$ 120,991	\$ -	\$ -

Spirit of America Worldwide

Notes to the Financial Statements

The Organization invests in various investment securities that are exposed to different risks such as interest rate, credit, and market volatility risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Organization's account balances and amounts reported in the Statement of Financial Position.

4. **Property and equipment** Property and equipment consisted of the following at December 31:

	<u>2019</u>
Field operations equipment	\$ 34,810
Furniture and equipment	63,040
Leasehold improvements	6,755
Software and website	221,574
Total property and equipment	326,179
Less: accumulated depreciation	(135,737)
Property and equipment, net	\$ 190,442

5. **Net assets with donor restrictions**

Restricted contributions consist of contributions earmarked by donors for specific project funds and long-term grants that are allocated to multiple years of operations. Project funds are purpose restricted for the direct expenses of the project selected by the donor. Category/country funds are purpose restricted for the direct expenses of various projects in the funding category or country. When projects are overfunded, the Organization's policy is to offer the donor a refund or to reallocate their donation to another project. No such refunds were requested in 2019 but rather, donors requested their funds be reallocated to other priority areas.

The Organization had net assets restricted by donors related to the following specific purposes or time restrictions at December 31:

	<u>2019</u>
Temporary purpose restrictions	\$ 192,459
Temporary time restrictions	5,750,000
Permanent restrictions:	
Buchanan endowment (see Note 6)	100,000
Total net assets with donor restrictions	\$ 6,042,459

Spirit of America Worldwide

Notes to the Financial Statements

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows for the year ended December 31:

	<u>2019</u>
Time restrictions	\$ 820,532
Field operations personnel	1,200,000
Africom regional projects	321,138
Centcom regional projects	407,934
Eucom regional projects	194,002
Pacom regional projects	145,023
Southcom regional projects	168,500
Other purposes	220,000
Total amount released from restriction	\$ 3,477,129

6. Endowment

Permanently restricted net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as net assets with temporary donor restrictions or net assets without donor restrictions, in accordance with the donor's intent, until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spirit of America Worldwide

Notes to the Financial Statements

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

During 2015, the Organization received one donor-restricted endowment fund which is held in an investment account. Correlating net assets are classified as permanently restricted. Investment income and gains from these investments are available to be appropriated for general operational use. The donor has requested the nominal value of the gift be retained in perpetuity to support the Organization's activities. The Organization's policy is to appropriate earnings from this endowment to support its program purpose activities.

There were no new endowments, gifts to the existing endowment, or other changes to permanently restricted endowment net assets during 2019. Permanently restricted endowment net assets totaled \$100,000 at December 31, 2019. The singular endowment gift's donor has allotted all income on the endowment to be used for unrestricted purposes. Accordingly, all endowment income during 2019 was classified as unrestricted income.

Endowment assets were held in an investment portfolio composed of the following at December 31:

	<u>2019</u>
Cash and cash equivalents	\$ 4,793
Investments	<u>117,295</u>
Total endowment assets	\$ 122,088

Spirit of America Worldwide

Notes to the Financial Statements

The following is a summary of changes in the endowed cash and investment accounts during the year ended December 31:

	<u>2019</u>
Endowment net assets, beginning of year	\$ 107,033
Endowment funds received	-
Dividend and interest income	4,154
Realized and unrealized gains	13,806
Appropriated for expenditure	(2,905)
Endowment net assets, end of year	\$ 122,088

7. Office lease

The Organization leases office space in Arlington, Virginia under an agreement which extends through June 2023. The lease agreement is cancellable with 90 days advance notice and a \$5,000 penalty. The following is a schedule of future minimum lease commitments as of December 31, 2019:

<u>Year ending December 31</u>	<u>Total</u>
2020	\$ 130,266
2021	135,477
2022	140,896
2023	71,829
Total	\$ 478,468

Rent expense under the operating lease was \$136,335 for the year ended December 31, 2019.

8. Retirement plan

The Organization sponsors a qualified 403(b) defined contribution plan that covers substantially all full-time employees meeting certain eligibility requirements. Employees may contribute a portion of their annual compensation to the plan, limited to the maximum annual amount as set periodically by the Internal Revenue Service. The Organization may also make a discretionary employer match contribution to the plan, calculated as up to 4.0% of each eligible employee's annual compensation. Plan participants are fully vested in all employer match contributions. During the year ended December 31, 2019, the Organization contributed \$76,915 in discretionary employer match to the plan.

9. Concentration

For the year ended December 31, 2019, three donors accounted for 74% of all contributions recognized. At December 31, 2019, two donors accounted for 95% of grants and pledges receivable outstanding.

Spirit of America Worldwide

Notes to the Financial Statements

10. Risks and uncertainties

The expanding coronavirus outbreak (COVID-19) could negatively impact the Organization's operations, suppliers or other vendors, and donor base. Any quarantines or other disruptions to operations may adversely impact the Organization's ability to deliver services, which often include long-distance travel. In addition, a widespread health crisis will adversely affect the local and global economies, resulting in an economic downturn that could affect the Organization's activities. Management is unable to predict the near and long-term effects on the Organization.

On April 27, 2020, the Organization entered into a note under the Paycheck Protection Program under Section 7(a) (36) of the Small Business Act of 1953, as amended, following the Coronavirus Aid, Relief and Economic Security Act enacted on March 27, 2020 amounting to \$417,700 with a fixed 1% interest rate per annum. Neither principal nor interest is due for the first six months after the date of the note (the "deferral period"). Upon expiration of the deferral period, the note calls for equal payments of principal and interest (less amounts forgiven) through April 2022.