



The Pentagon Federal Credit Union Foundation

Financial Statements
Years Ended December 31, 2020 and 2019

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.



The Pentagon Federal Credit Union Foundation

Financial Statements
Years Ended December 31, 2020 and 2019

The Pentagon Federal Credit Union Foundation

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Independent Auditor's Report

Board of Directors
The Pentagon Federal Credit Union Foundation
Alexandria, Virginia

Opinion

We have audited the financial statements of The Pentagon Federal Credit Union Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2020 and 2019, and the changes in its net asset and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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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 Foundation'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 Foundation'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.

BDO USA, LLP

June 23, 2021

Financial Statements

The Pentagon Federal Credit Union Foundation

Statements of Financial Position

| <i>December 31,</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,374,672 | \$ 1,989,301 |
| Contributions receivable | 11,459 | 26,140 |
| Notes receivable under VEIP | 700,000 | 100,000 |
| Investments under VEIP | 234,421 | 169,421 |
| Prepaid expenses and other | 150,237 | 87,379 |
| Total assets | \$ 2,470,789 | \$ 2,372,241 |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 92,194 | \$ 189,114 |
| ARK loan liability | 16,783 | 53,728 |
| Total liabilities | 108,977 | 242,842 |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions | 800,713 | 660,081 |
| With donor restrictions | 1,561,099 | 1,469,318 |
| Total net assets | 2,361,812 | 2,129,399 |
| Total liabilities and net assets | \$ 2,470,789 | \$ 2,372,241 |

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statements of Activities and Changes in Net Assets

| Years ended December 31, | 2020 | | | 2019 | | |
|---------------------------------------|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues | | | | | | |
| Contributions | \$ 1,172,690 | \$ 858,880 | \$ 2,031,570 | \$ 675,992 | \$ 65,954 | \$ 741,946 |
| Donated services | 2,468,887 | - | 2,468,887 | 1,376,332 | - | 1,376,332 |
| Grant revenue | 20,000 | 591,860 | 611,860 | - | 461,093 | 461,093 |
| Special events revenue: | | | | | | |
| Gross revenue | 2,025,225 | 69,900 | 2,095,125 | 2,381,109 | - | 2,381,109 |
| Costs of direct benefits to donors | (52,743) | - | (52,743) | (334,350) | - | (334,350) |
| Interest income | 858 | 25,063 | 25,921 | 859 | 6,562 | 7,421 |
| Net assets released from restrictions | 1,453,922 | (1,453,922) | - | 623,817 | (623,817) | - |
| Total revenues | 7,088,839 | 91,781 | 7,180,620 | 4,723,759 | (90,208) | 4,633,551 |
| Expenses | | | | | | |
| Program services | 5,359,845 | - | 5,359,845 | 4,298,608 | - | 4,298,608 |
| Supporting services: | | | | | | |
| Management and general | 437,099 | - | 437,099 | 708,647 | - | 708,647 |
| Fundraising - direct | 735,153 | - | 735,153 | 779,889 | - | 779,889 |
| Fundraising - other | 416,110 | - | 416,110 | 115,328 | - | 115,328 |
| Total expenses | 6,948,207 | - | 6,948,207 | 5,902,472 | - | 5,902,472 |
| Change in net assets | 140,632 | 91,781 | 232,413 | (1,178,713) | (90,208) | (1,268,921) |
| Net assets, beginning of year | 660,081 | 1,469,318 | 2,129,399 | 1,838,794 | 1,559,526 | 3,398,320 |
| Net assets, end of year | \$ 800,713 | \$ 1,561,099 | \$ 2,361,812 | \$ 660,081 | \$ 1,469,318 | \$ 2,129,399 |

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statement of Functional Expenses

| Year ended December 31, | 2020 | | | | | | | | | | | | |
|-----------------------------------|-------------------|---------------------|---------------------|---------------------------------|-------------------|-------------------|------------------------|-------------------|-------------------|-----------------------------------|------------------------|-------------------|---------------------|
| | Program Services | | | | | | Direct Fundraising | | | Support Services | | | |
| | ARK Loans Program | Dream Makers | Military Heroes | Entrepreneur Investment Program | PREVENTS | Outreach | Total Program Services | Programs | Special Events | Total Direct Fundraising Expenses | Management and General | Fundraising | Total Expenses |
| Public relations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,205 | \$ 4,205 | \$ - | \$ - | \$ - | \$ 8,315 | \$ 159 | \$ 12,679 |
| Sponsorships | - | 62,905 | 50,000 | 20,000 | - | 114,008 | 246,913 | - | - | - | 10,000 | - | 256,913 |
| Special events | - | - | - | 5,003 | - | - | 5,003 | - | 159,833 | 159,833 | 3,579 | - | 168,415 |
| Professional and outside services | - | 13,539 | 52,965 | 206,786 | 236,705 | - | 509,995 | 2,025 | - | 2,025 | 12,181 | 23,001 | 547,202 |
| Professional donated services | 11,645 | 177,407 | 385,419 | 487,976 | 42,045 | 194,106 | 1,298,598 | 386,764 | 184,861 | 571,625 | 309,631 | 232,605 | 2,412,459 |
| Travel and conference | - | - | - | 7,309 | - | - | 7,309 | - | 875 | 875 | 12,207 | 3,580 | 23,971 |
| Business meetings | - | - | - | 4,108 | - | - | 4,108 | - | - | - | 1,435 | - | 5,543 |
| Rental of furniture and equipment | - | 8,140 | 4,289 | 6,525 | - | - | 18,954 | - | - | - | 14,793 | 4,175 | 37,922 |
| Office occupancy | - | - | - | - | - | - | - | - | - | - | 55,000 | - | 55,000 |
| Postage | - | - | 608 | 153 | - | 30 | 791 | - | 655 | 655 | 16 | 9,256 | 10,718 |
| Telephone and telecommunications | - | - | 184 | - | - | - | 184 | - | 140 | 140 | 2,160 | - | 2,484 |
| Personal property taxes | - | - | - | - | - | - | - | - | - | - | 64 | - | 64 |
| Office supplies | - | - | - | - | - | - | - | - | - | - | 182 | 10 | 192 |
| Purchases | - | - | - | 523 | - | - | 523 | - | - | - | - | - | 523 |
| Printing and publications | - | - | - | 1,950 | 9,113 | 648 | 11,711 | - | - | - | 490 | 57,848 | 70,049 |
| Credit card processing fees | - | 100 | 179 | - | - | - | 279 | - | - | - | - | - | 65,165 |
| Military Heroes support | - | - | 2,120,709 | - | - | - | 2,120,709 | - | - | - | - | - | 2,120,709 |
| Dream Makers grants | - | - | - | - | - | - | 1,075,217 | - | - | - | - | - | 1,075,217 |
| Grants under VEIP | - | - | - | 31,105 | - | - | 31,105 | - | - | - | - | - | 31,105 |
| Other miscellaneous expenses | - | - | - | 3,409 | - | - | 3,409 | - | - | - | 7,046 | 20,590 | 31,045 |
| Loan subsidy | 20,832 | - | - | - | - | - | 20,832 | - | - | - | - | - | 20,832 |
| Total expenses | \$ 32,477 | \$ 1,337,308 | \$ 2,614,353 | \$ 774,847 | \$ 287,863 | \$ 312,997 | \$ 5,359,845 | \$ 388,789 | \$ 346,364 | \$ 735,153 | \$ 437,099 | \$ 416,110 | \$ 6,948,207 |

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statement of Functional Expenses

| Year ended December 31, | 2019 | | | | | | | | | | | | |
|-----------------------------------|-------------------|---------------------|---------------------|---|------------------|--------------------|------------------------|-------------------|-------------------|-----------------------------------|------------------------|-------------------|---------------------|
| | Program Services | | | | | Direct Fundraising | | | | | Support Services | | |
| | ARK Loans Program | Dream Makers | Military Heroes | Veteran Entrepreneur Investment Program | PREVENTS | Outreach | Total Program Services | Programs | Special Events | Total Direct Fundraising Expenses | Management and General | Fundraising | Total Expenses |
| Public relations | \$ - | - | 1,263 | 40,567 | - | - | 41,830 | - | - | 21 | 321,703 | 1,061 | 364,615 |
| Special events | - | - | - | 390 | - | - | 390 | - | 468,053 | 468,053 | 2,225 | - | 470,668 |
| Professional and outside services | - | - | - | 34,393 | 40,684 | - | 75,077 | - | - | - | 15,442 | 19,500 | 110,019 |
| Professional donated services | 13,926 | 215,464 | 278,388 | 304,468 | 9,008 | - | 821,254 | 208,786 | 89,455 | 298,241 | 191,764 | 28,438 | 1,339,697 |
| Travel and conference | - | - | - | 10,484 | - | - | 10,484 | - | 982 | 982 | 14,703 | 1,029 | 27,198 |
| Business meetings | - | - | - | - | - | - | - | - | - | - | 7,869 | - | 7,869 |
| Rental of furniture and equipment | - | - | - | 10,860 | - | - | 10,860 | - | 3,950 | 3,950 | 47,444 | - | 62,254 |
| Office occupancy | - | - | - | - | - | - | - | - | - | - | 31,717 | - | 31,717 |
| Postage | - | - | 107 | - | - | - | 107 | - | - | - | 34,255 | - | 34,362 |
| Telephone and telecommunications | - | - | - | - | - | - | - | - | - | - | 3,552 | - | 3,552 |
| Personal property taxes | - | - | - | - | - | - | - | - | - | - | 1,679 | - | 1,679 |
| Office supplies | - | - | - | 184 | - | - | 184 | - | 517 | 517 | 845 | - | 1,546 |
| Printing and publications | 452 | 296 | 1,036 | 1,303 | - | - | 3,087 | 900 | - | 900 | 34,375 | 40,643 | 79,005 |
| Credit card processing fees | - | 40 | - | - | - | - | 40 | - | 7,225 | 7,225 | 100 | 24,657 | 32,022 |
| Military Heroes support | - | - | 2,075,251 | - | - | - | 2,075,251 | - | - | - | - | - | 2,075,251 |
| Dream Makers grants | - | 1,045,090 | - | - | - | - | 1,045,090 | - | - | - | - | - | 1,045,090 |
| Defender's Lodge building | - | - | 4,500 | - | - | - | 4,500 | - | - | - | - | - | 4,500 |
| Loss on investment under VEIP | - | - | - | 120,045 | - | - | 120,045 | - | - | - | - | - | 120,045 |
| Other miscellaneous expenses | - | - | - | 2,509 | - | - | 2,509 | - | - | - | 958 | - | 3,467 |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - | - | 16 | - | 16 |
| Loan subsidy | 87,900 | - | - | - | - | - | 87,900 | - | - | - | - | - | 87,900 |
| Total expenses | \$ 102,278 | \$ 1,260,890 | \$ 2,360,545 | \$ 525,203 | \$ 49,692 | \$ - | \$ 4,298,608 | \$ 209,686 | \$ 570,203 | \$ 779,889 | \$ 708,647 | \$ 115,328 | \$ 5,902,472 |

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statements of Cash Flows

| <i>Years ended December 31,</i> | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 232,413 | \$ (1,268,921) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | - | 16 |
| Loss on investment under VEIP | - | 120,045 |
| Decrease (increase) in assets | | |
| Contributions receivable | 14,681 | (19,210) |
| Prepaid expenses and other | (62,858) | (86,179) |
| Decrease in liabilities | | |
| Accounts payable and accrued expenses | (96,920) | (160,103) |
| ARK loan liability | (36,945) | (1,032) |
| Net cash provided by (used in) operating activities | 50,371 | (1,415,384) |
| Cash flows from investing activities | | |
| Purchases of investments under VEIP | (65,000) | (469,421) |
| Increase in notes receivable under VEIP | (600,000) | - |
| Proceeds from VEIP investment dissolution | - | 179,955 |
| Net cash used in investing activities | (665,000) | (289,466) |
| Decrease in cash and cash equivalents | (614,629) | (1,704,850) |
| Cash and cash equivalents, beginning of year | 1,989,301 | 3,694,151 |
| Cash and cash equivalents, end of year | \$ 1,374,672 | \$ 1,989,301 |

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

The Pentagon Federal Credit Union Foundation (the "Foundation") is a nonprofit organization formed to support the members of the United States defense community by offering programs that instill financial literacy and provide military members, veterans and their communities with the skills and resources to realize financial stability and opportunity. The Foundation's vision is that all service members are able to serve the nation free of financial worry and that every veteran has a strong financial future.

Basis of Presentation

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 (U.S. GAAP).

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds held at a related party financial institution. The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Contributions Receivable

Unconditional promises to give (pledges to give) are recognized as revenue and contribution receivable in the period the promises are made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Management considers all promises to give to be fully collectible, therefore, no allowance for uncollectible pledges has been established.

Notes receivable

Notes receivable arise from loans to qualifying organizations. Notes receivable are stated at the amount of unpaid principal, adjusted for a present value discount and an allowance for loan losses, when deemed appropriate. The Foundation records an allowance when management determines that collectability is not probable. Management's estimate is based on review of the loan comprising the notes receivable balance and considers known and inherent risks, the estimated fair value of the underlying collateral, if any, and current economic conditions. Management considers the notes receivable to be fully collectible, therefore, no allowance for loan losses has been established.

Investments

The Foundation records investments in companies not accounted for under the equity method of accounting at the cost basis. These investments are part of the Veteran Entrepreneur Investment Program (VEIP).

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated and recorded using the straight-line method over the following estimated useful lives of the assets.

| | |
|------------------------|-------------|
| Furniture and fixtures | 8 years |
| Computer equipment | 3 - 5 years |
| Computer software | 3 - 5 years |
| Office equipment | 5 years |

As of December 31, 2020 and 2019, the property and equipment are fully depreciated.

Classification of Net Assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

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

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that is consistently applied. Professional donated services are allocated on the basis of actual time and effort.

Revenue Recognition Accounted for in Accordance with Contributions Accounting

Contributions and grants

The Foundation receives contributions and grants from private donors and from related affiliated organizations. Contributions and grants, including unconditional promises to give, are recognized as revenue in the period received or pledged, as applicable, and are available for use in general operations unless restricted by the donor. Those that are restricted by the donor are recognized as increase in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

Conditional contributions that are those with a measurable performance or other barrier and right of return, are recognized as revenue when the conditions on which they depend have been substantially met.

Donated Services

Donated services are recognized as contributions, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Employees of the Pentagon Federal Credit Union donate services to the Foundation. The Foundation has recorded the estimated value of services related to administration, fundraising and consulting services as contributions and related expenses, as reflected in the Foundation's financial statements.

Special Events

Revenue from special events is recognized in the year when the events occur. Expenses that directly benefit the donors are recorded as an offset to revenue in the year of the event.

Concentration of Credit Risk

The Foundation maintains all of its cash balance at one financial institution. Accounts at this institution are insured by the National Credit Union Administration up to \$250,000. Uninsured balances aggregate to \$1,195,237 and \$2,179,536 at December 31, 2020 and 2019, respectively. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. Actual results could differ from those estimates.

Programs

The Foundation maintains four programs designed to benefit individuals who devote their lives to the defense of our country. The Asset Recovery Kit Loan ("ARK") program is designed to combat payday lending, offering our soldiers a more cost effective alternative to meet their short-term cash flow needs, as well as educational programs to instill financial literacy. Through the ARK program, the Foundation guarantees the repayment of ARK loans made to military personnel by the Pentagon Federal Credit Union, as well as other participating defense credit unions. ARK guarantees resulting in repayment to participating credit unions are recorded as loan subsidy expense when identified, based on actual and anticipated losses.

The Dream Makers program helps military and veterans by providing assistance toward down payment and closing costs for the purchase of a home. Grants are available up to \$5,000 for eligible applicants purchasing their first home.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

Through the Military Heroes program, the Foundation provides to eligible applicants (specifically post-9/11 combat veterans) temporary emergency financial assistance for rent, mortgage, utilities or car payments to prevent a near-term challenge from becoming a life-changing crisis. The Foundation also supports caregivers with childcare assistance and short-term educational expenses. As part of the Military Heroes program, the Foundation committed to raise \$12.5 million for the building of the Defender's Lodge, completed in 2013 for wounded warriors and veterans where they can stay for free while receiving poly-trauma care at the Veterans Administration hospital in Palo Alto, California. Upon completion, the Defender's Lodge was donated by the Foundation to U.S. Department of Veteran Affairs (DVA).

The VEIP provides veteran-owned start-ups with seed capital to build and grow their businesses, create a robust network for veteran-owned businesses to succeed and enable the Foundation to perpetually re-invest returns in future veteran-owned businesses. The VEIP is funded by outside donors with the Pentagon Federal Credit Union, a related party, matching up to \$1 million in contributions in 2018 to the Foundation. The Foundation's VEIP plans to invest in three to five selected businesses a year. Returns on all investments will revert to the program to support future veteran-owned business ventures.

On November 26, 2019, the President's Roadmap to Empower Veterans and End the National Tragedy of Suicide (PREVENTS) Executive Order Office, administered by the DVA and the Foundation entered into an agreement. This agreement sets forth a structure in which both DVA and the Foundation will work in a mutually beneficial manner to advance and improve the quality of life for U.S. service veterans. The Foundation created a designated fund to support the development of a national public awareness campaign on suicide prevention. All funds raised through this collaboration will support the design, implementation, and products of a public health awareness campaign on suicide prevention, in conjunction with the roadmap established in the PREVENTS Executive Order.

The Outreach program involves meetings with potential beneficiaries of the Foundation's programs to educate them on programs that are available and accessible to them, along with meeting other veteran service organizations regarding how they can work together with the Foundation to serve the military community.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2020 and 2019, advertising expense totaled \$79,049 and \$79,005, respectively.

Income Taxes

The Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia on December 4, 2001. It is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. No material taxable unrelated business income was generated and accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Foundation follows the accounting guidance that creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The Foundation is not required to record such an obligation. The Foundation is no longer subject to income tax examination by federal, state or local tax authorities for tax years before 2017.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

Recently Adopted Authoritative Guidance

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU assists in the determination of the nature of the transaction which will then govern the expense recognition methodology and timing of the transaction. The Foundation adopted ASU 2018-08 in 2020 under the modified prospective basis. The adoption of this update did not materially impact grants expense in the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. The Foundation adopted ASU 2018-13 in 2020 and there was no effect on the Foundation's financial statement disclosures.

Recent Accounting Pronouncement Not Yet Adopted

In June 2016, the FASB issued ASU 2016-03, *Financial instruments - Credit Losses*. This ASU was issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity. The ASU changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. The ASU includes financial assets recorded at amortized cost basis such as loan receivables, trade and certain other receivables as well as certain off-balance sheet credit exposures such as loan commitments and financial guarantees. The ASU does not apply to financial assets measured at fair value, promises to give (pledges receivable) and loans and receivables between entities under common control. The ASU is effective for the Foundation's financial statements for the fiscal year ending December 31, 2023. Early adoption may be selected for fiscal years beginning after December 15, 2018. Management is evaluating the potential impact of this guidance on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The ASU requires that a nonprofit present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets. Information that shows the contributed nonfinancial assets disaggregated by category will be required to be disclosed. In addition, the ASU requires that for each type of contributed nonfinancial asset the following will be disclosed: (a) policy (if any) on liquidating rather than using the contributed nonfinancial assets, (b) qualitative considerations on whether the contributed nonfinancial assets were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to contributed nonfinancial assets, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the Not-for-Profit entity is restricted by the donor from selling or utilizing the contributed nonfinancial assets. The amendments in the ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption of the ASU is permitted. Management is evaluating the potential impact of this guidance on its financial statements.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

2. Related-Party Transactions

The Foundation receives cash contributions and donated services and support from the Pentagon Federal Credit Union. For the years ended December 31, 2020 and 2019, the Foundation received cash contributions of \$103,775 and \$4,929, respectively. Also, for the years ended December 31, 2020 and 2019, the Foundation received donated services and support of \$2,468,887 and \$1,376,332, respectively.

3. Restricted Grants

In 2016, the Pentagon Federal Credit Union (“PenFed”) participated in the Federal Home Loan Bank of Atlanta (“FHLB”) Affordable Housing Program (“AHP”) as a member of the FHLB Atlanta. PenFed utilizes the Foundation to manage the funds within the AHP and to identify eligible recipients. These funds are restricted for use in the AHP. For the years ended December 31, 2020 and 2019, revenues with donor restrictions related to AHP were recognized and released in the amount of \$0 and \$36,093, respectively.

In 2016, the Foundation agreed with the DVA to accept funds from private industry to then use to assist veterans. Subsequently, the Foundation received \$750,000 from a third party donor, who stipulated that the funds be distributed where the need is greatest for veterans located in certain geographic areas in the U.S. For the years ended December 31, 2020 and 2019, the amount of funds utilized for the Military Heroes program was \$0 and \$24,393, respectively, which is included in the total net assets released from restrictions amount for the Military Heroes program.

In 2020 and 2019, the Foundation received \$400,000 and \$400,000, respectively, from Disabled American Veterans to provide emergency financial assistance and financial counseling to eligible veterans. For the years ended December 31, 2020 and 2019, the amount of these funds utilized for the Military Heroes program was \$398,967 and \$275,831, respectively, which is included in the total net assets released from restrictions amount for the Military Heroes program.

The Foundation also received \$116,860 and \$25,000 from other third party donors in 2020 and 2019, respectively, to support the Military Heroes Program. For the years ended December 31, 2020 and 2019, the amount of funds utilized for the Military Heroes program was \$199,228 and \$25,000, respectively, which is included in the total net assets released from restrictions amount for the Military Heroes program.

Additionally, the Foundation received \$75,000 and \$0 from other third party donors in 2020 and 2019, respectively, to support the Veteran Entrepreneur Investment Program.

4. Contributions Receivable

As of December 31, 2020 and 2019, contributions receivable includes unconditional promises to give due in less than one year in the amount of \$11,459 and \$26,140, respectively. These receivables are recorded at their unpaid balances which approximate fair value.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

5. Notes Receivable and Investments under VEIP

The following notes receivable and investments are related to the VEIP program:

True Made Foods, Inc

On October 19, 2018, the Foundation entered into an agreement with True Made Foods, Inc. (“TMF”), under the VEIP program to invest \$100,000. This agreement was consummated via a convertible promissory note (the “Note 1”), payable to the Foundation with interest at 6% per annum, for which the principal and interest is due in full December 31, 2019. Note 1 was convertible to preferred stock in TMF upon a qualifying equity financing. In July 2019, Note 1 amount and the related accrued interest were converted into 1,213,784 shares of TMF’s preferred stock at \$0.08603 purchase price per share. The Foundation recorded the investment of \$104,422 using the cost method as of December 31, 2020 and 2019.

Inner River, Inc

On November 19, 2019, the Foundation entered into an agreement with Inner River, Inc, under the VEIP program to invest \$300,000, payable in 3 installments - \$100,000 on November 21, 2019, \$100,000 on January 17, 2020 and \$100,000 on March 13, 2020. This agreement was consummated via a convertible promissory note (the “Note 2”), payable to the Foundation with interest at 5% per annum, for which the principal and interest is due in full November 19, 2023. Note 2 is convertible into common stock of Inner River, Inc. upon a qualifying equity financing. As of December 31, 2020 and 2019, the fair value of this note receivable of \$300,000 and \$100,000, respectively, approximates its carrying amount.

Flagship Management, LLC

On March 19, 2020, the Foundation entered into an agreement with Flagship Management, LLC, under the VEIP program to invest \$300,000. This agreement was consummated via a convertible promissory note (the “Note 3”), payable to the Foundation with interest at 6% per annum, for which the principal and interest is due in full March 19, 2022. Note 3 is convertible to preferred stock upon a qualifying equity financing, pursuant to which Flagship issues and sells Qualified Financing Preferred Interests. As of December 31, 2020, no such equity financing has occurred. As of December 31, 2020, the fair value of this note receivable of \$300,000 approximates its carrying amount.

RentCheck Holdings, Inc

On December 11, 2020, the Foundation entered into an agreement with RentCheck Holdings Inc., under the VEIP program to invest \$100,000. This agreement was consummated via a Simple Agreement for Future Equity (the “SAFE Agreement”). The SAFE Agreement neither accrues interest nor has a maturity date. The SAFE Agreement entitles the Foundation to either convert the invested amount into capital stock upon the occurrence of an ‘Equity Financing Event’ or receive the cash invested upon the occurrence of a ‘Liquidity or Dissolution Event’, subject to terms and conditions of the SAFE Agreement. As of December 31, 2020, the fair value of receivable under this SAFE Agreement of \$100,000 approximates its carrying amount.

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LeaseLock, Inc

On October 8, 2019, the Foundation entered into a common stock purchase agreement with LeaseLock, Inc. to invest \$64,999 for a 0.23% stake in the entity which represents 45,371 common shares at \$1.4326 per share. The capital contribution balance as of December 31, 2020 and 2019 was \$64,999. The Foundation recorded the investment using the cost method as of December 31, 2020 and 2019.

Clarified Inc. d/b/a Tumble

On November 23, 2020, the Foundation entered into a preferred stock investment agreement with Clarified Inc. to invest \$65,000 for a 2.21% stake in the entity which represents 144,702 series seed preferred stock shares at \$0.4492 per share. The capital contribution balance as of December 31, 2020 was \$65,000. The Foundation recorded the investment of \$65,000 using the cost method as of December 31, 2020.

6. ARK Loan Liability

As part of the Foundation's ARK program, the Foundation accrues a liability related to loans guaranteed by the ARK program that must be repaid in the event the borrower defaults. The Foundation estimates the accrual based on historical charge-offs. As of December 31, 2020 and 2019, the Foundation recorded a liability of \$16,783 and \$53,728, respectively.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at:

| <i>December 31,</i> | 2020 | 2019 |
|---|---------------------|---------------------|
| Military Heroes | \$ 346,974 | \$ 463,728 |
| Defender's Lodge | 61,240 | 61,240 |
| Veteran Entrepreneur Investment Program | 1,082,985 | 944,350 |
| 2021 Night of Heroes Gala | 69,900 | - |
| | <u>\$ 1,561,099</u> | <u>\$ 1,469,318</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions are as follows:

| <i>Years ended December 31,</i> | 2020 | 2019 |
|---|---------------------|-------------------|
| Military Heroes | \$ 1,042,430 | \$ 347,177 |
| Veteran Entrepreneur Investment Program | 251,492 | 220,736 |
| PREVENTS | 160,000 | 15,000 |
| Defender's Lodge | - | 4,811 |
| Dream Makers | - | 36,093 |
| | <u>\$ 1,453,922</u> | <u>\$ 623,817</u> |

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Notes to Financial Statements

8. Liquidity and Availability of Resources

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

| <i>December 31,</i> | 2020 | 2019 |
|---|--------------------|--------------------|
| Cash and cash equivalents | \$ 1,374,672 | 1,989,301 |
| Contributions receivable | 11,459 | 26,140 |
| Notes receivable under VEIP | 700,000 | 100,000 |
| Total financial assets | 2,086,131 | 2,115,441 |
| Less amount unavailable for general expenditure within one year, due to: | | |
| Restricted by donors with time or purpose restrictions | (1,561,099) | (1,469,318) |
| Total financial assets available to meet cash needs for general expenditure within one year | \$ 525,032 | 646,123 |

As part of the Foundation's liquidity management, financial assets are structured to provide availability to meet the needs of the general expenditure and liabilities as they come due. The Foundation's financial assets profile is reviewed in detail during the annual budget process and financial assets are aligned to meet the operational needs of the Foundation. The Foundation keeps cash in excess of daily requirements in money market funds.

9. Risk and Uncertainties- COVID-19 Outbreak

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

COVID-19 directly impacted the Foundation's programmatic and fundraising activities. There was a decrease in generation of contributions without donor restrictions due to change in donor mindset caused by the uncertain economic and market conditions. However, significant funding was received by the Foundation for its COVID-19 emergency programs making up for the decline in contributions without donor restrictions. The Foundation also saw an increased demand under its financial assistance programs and outputs under these programs increased by 50% in 2020.

The COVID-19 outbreak may have a material adverse impact on economic and market conditions, triggering a period of economic slowdown. This situation may lead to a decline in contributions or collections of existing receivables. Depending on the length of the outbreak, this pandemic could present material uncertainty and risk with respect to liquidity of the Foundation's investments. The fluidity of this situation precludes any prediction as to the ultimate material adverse impact of COVID-19. Nevertheless, COVID-19 presents potential material uncertainty and risk with respect to the Foundation, its performance, and its financial results.

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On March 27, 2020, the former President of the United States signed into law the “Coronavirus Aid, Relief and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. The Foundation continues to examine the impact that the CARES Act may have on its business and is currently not impacted by the CARES Act.

On December 27, 2020, the Consolidated Appropriations Act (the 2020 Act) was passed, which includes \$900 billion in stimulus relief as a result of the COVID-19 pandemic. The Foundation believes that the 2020 Act has no impact on its operations.

10. Subsequent Events

On March 11, 2021, the American Rescue Plan Act of 2021 (the 2021 Act) was signed into law which includes \$1.9 trillion in stimulus relief as a result of the COVID-19 pandemic. Currently, management does not expect the Act to have a material impact on the statements of financial position, changes in net assets, or liquidity of the Foundation.

On March 16, 2021, PenFed Foundation VEIP GP LLC was formed as a limited liability company under the Delaware Limited Liability Company Act. The Foundation is the sole member of the limited liability company.

The Foundation evaluated subsequent events through June 23, 2021, which is the date the financial statements were available to be issued. There were no other events noted that required adjustments to, or disclosure in, these financial statements.