Fisher House Foundation, Inc.

Financial Statements, Independent Auditor’s Report, Schedule of Expenditure of Federal Awards, and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Years Ended December 31, 2022 and 2021

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Contents

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Independent Auditor's Report

Board of Trustees
Fisher House Foundation, Inc.
Rockville, Maryland

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fisher House Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, 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, 2022 and 2021, and the changes in its net assets 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2023 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

BDO USA, LLP

McLean, Virginia
June 29, 2023

Financial Statements

Fisher House Foundation, Inc.

Statements of Financial Position

December 31,		**2022**		2021
Assets				
Cash and cash equivalents	$	**64,328,647**	$	59,363,977
Pledges and contributions receivable, net		**9,098,707**		8,042,617
Construction-in-progress		**13,564,831**		1,919,124
Split-interest agreement receivable		**181,958**		225,640
Prepaid expenses and other assets		**258,191**		490,732
Property and equipment, net		**22,954**		66,244
Right-of-use assets - finance leases		**11,474**		-
Right-of-use assets - operating leases		**783,927**		-
Total assets	$	**88,250,689**	$	70,108,334
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	**3,497,213**	$	1,511,176
Retainage payable		**902,316**		-
Deferred rent		**-**		160,609
Lease liabilities - finance leases		**11,536**		-
Lease liabilities - operating leases		**914,283**		-
Total liabilities		**5,325,348**		1,671,785
Commitments and contingencies				
Net assets				
Without donor restrictions		**66,814,045**		53,784,787
With donor restrictions:				
Underwater endowments		**(9,272)**		(19,167)
Perpetual-in-nature		**750,000**		750,000
Purpose restrictions		**9,838,669**		7,980,289
Time and purpose restrictions		**5,242,941**		5,650,000
Time-restricted for future periods		**288,958**		290,640
Total with donor restrictions		**16,111,296**		14,651,762
Total net assets		**82,925,341**		68,436,549
Total liabilities and net assets	$	**88,250,689**	$	70,108,334

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Activities and Change in Net Assets

Years Ended December 31,	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:						
Revenue						
Grants and contributions -financial	**$ 40,626,990**	**$ 11,426,212**	**$ 52,053,202**	$ 36,184,544	$ 11,133,214	$ 47,317,758
Special events	**705,025**	**107,000**	**812,025**	775,022	65,000	840,022
Contributions - nonfinancial assets	**10,507,239**	**-**	**10,507,239**	7,163,522	-	7,163,522
Net assets released from restrictions	**10,083,573**	**(10,083,573)**	**-**	8,517,891	(8,517,891)	-
Total revenue	**61,922,827**	**1,449,639**	**63,372,466**	52,640,979	2,680,323	55,321,302
Expenses						
Program expenses	**45,341,612**	**-**	**45,341,612**	26,863,301	-	26,863,301
Management and general	**2,458,902**	**-**	**2,458,902**	2,215,315	-	2,215,315
Fundraising	**1,285,252**	**-**	**1,285,252**	1,287,444	-	1,287,444
Total expenses	**49,085,766**	**-**	**49,085,766**	30,366,060	-	30,366,060
Change in net assets before non-operating items	**12,837,061**	**1,449,639**	**14,286,700**	22,274,919	2,680,323	24,955,242
Non-operating items						
Investment return, net	**192,197**	**9,895**	**202,092**	83,933	376	84,309
Total non-operating items	**192,197**	**9,895**	**202,092**	83,933	376	84,309
Change in net assets	**13,029,258**	**1,459,534**	**14,488,792**	22,358,852	2,680,699	25,039,551
Net assets at the beginning of the year	**53,784,787**	**14,651,762**	**68,436,549**	31,425,935	11,971,063	43,396,998
Net assets at the end of the year	**$ 66,814,045**	**$ 16,111,296**	**$ 82,925,341**	$ 53,784,787	$ 14,651,762	$ 68,436,549

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

Year Ended December 31,	2022 Program	Management and General	Fundraising	Total
Grants and awards	$ 29,167,377	$ -	$ -	$ 29,167,377
Public service announcements - donated	1,117,750	-	-	1,117,750
Salaries and other benefits	2,365,741	1,786,750	591,158	4,743,649
Event costs	148,500	-	40,439	188,939
Office expenses, insurance and other	952,087	404,947	277,566	1,634,600
Consulting and professional fees	690,024	132,413	127,744	950,181
Education and promotion	8,267,387	6,892	111,089	8,385,368
Printing and publications	287,661	12,263	61,564	361,488
Rent expense	124,516	90,472	30,421	245,409
Travel	2,198,699	9,135	39,881	2,247,715
Depreciation and amortization	21,870	16,030	5,390	43,290
Total expenses	$ 45,341,612	$ 2,458,902	$ 1,285,252	$ 49,085,766

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statement of Functional Expenses

	2021			
Year Ended December 31,	Program	Management and General	Fundraising	Total
Grants and awards	$ 16,199,171	$ -	$ 500	$ 16,199,671
Public service announcements - donated	800,250	-	-	800,250
Salaries and other benefits	2,194,588	1,547,038	503,859	4,245,485
Event costs	17,898	-	99,118	117,016
Office expenses, insurance and other	849,510	395,833	339,220	1,584,563
Consulting and professional fees	643,483	146,578	169,479	959,540
Education and promotion	5,710,363	5,565	89,134	5,805,062
Printing and publications	181,597	9,701	43,997	235,295
Rent expense	118,934	91,254	28,349	238,537
Travel	126,208	2,820	8,654	137,682
Depreciation and amortization	21,299	16,526	5,134	42,959
Total expenses	$ 26,863,301	$ 2,215,315	$ 1,287,444	$ 30,366,060

See accompanying notes to the financial statements.

Fisher House Foundation, Inc.

Statements of Cash Flows

Years Ended December 31,		**2022**		2021
Cash flows from operating activities:				
Change in net assets	$	**14,488,792**	$	25,039,551
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**43,290**		42,959
Change in value of split-interest agreement receivable		**(4,463)**		(5,309)
Realized and unrealized (gain) loss on investments		**(13,496)**		8,471
Amortization of right-of-use assets - finance leases		**20,863**		-
Non-cash lease expense		**225,675**		-
Donated investments received		**(467,389)**		(1,602,258)
Cost of houses donated		**20,158,016**		7,995,548
Changes in operating assets and liabilities:				
Pledges and contributions receivable		**(1,056,090)**		371,248
Split-interest agreement receivable		**48,145**		48,145
Prepaid expenses and other assets		**232,542**		307,206
Accounts payable and accrued expenses		**1,986,037**		(1,366,135)
Lease liabilities - operating leases		**(255,928)**		-
Deferred rent		**-**		(22,128)
Retainage payable		**902,316**		-
Net cash provided by operating activities		**36,308,310**		30,817,298
Cash flows from investing activities:				
Additions to construction-in-progress		**(31,803,724)**		(6,115,669)
Purchases of property and equipment		**-**		(20,678)
Proceeds from sales of donated securities		**480,885**		1,593,787
Net cash used in investing activities		**(31,322,839)**		(4,542,560)
Cash flows from financing activity:				
Principal reduction in lease liabilities - finance leases		**(20,801)**		-
Net cash used in financing activity		**(20,801)**		-
Net increase in cash and cash equivalents		**4,964,670**		26,274,738
Cash and cash equivalents at the beginning of the year		**59,363,977**		33,089,239
Cash and cash equivalents at the end of the year	$	**64,328,647**	$	59,363,977
Supplemental disclosure of cash flow information:				
Acquisition of property and equipment through finance lease	**$**	**32,337**	$	-
Non-cash change in deferred rent	**$**	**160,609**	$	-
Operating lease assets obtained in exchange for new operating lease liabilities	**$**	**949,399**	$	-

See accompanying notes to the financial statements.

1. The Organization and Summary of Significant Accounting Policies

Fisher House Foundation, Inc. (the Foundation) is a not-for-profit foundation incorporated under the laws of the State of Delaware on March 31, 1993. Fisher Houses are facilities constructed for the purpose of providing temporary lodging for members of the armed services and their families receiving care in military and veterans' hospitals. The Foundation was formed for, and program services consist of, constructing and donating Fisher Houses to various branches of the U.S. armed services and the Department of Veterans Affairs (the Donees), providing gratuitous guidance and supervisory, as well as monetary, assistance in connection with the Donees' management and operation of the Fisher Houses. The Foundation also funds the scholarship program and provides military personnel and their families with free air travel and hotel rooms. In addition, the Foundation's objectives are:

(a) To promote and enhance the public perception and image of Fisher Houses and the U.S. armed forces, and to provide financial assistance to current members of the U.S. armed services, veterans and their families.

(b) To promote, encourage and provide support to enhance the communication and cooperation among the military and federal, state and local governments, and private foundations involved or associated with Fisher Houses through publications and support programs.

(c) To support and encourage programs designed to maintain the high-quality standards of care and management associated with Fisher Houses.

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation

The Foundation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities*. As required by the Not-for-Profit Entities Topic of the Codification, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Contribution revenue

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as contributions with donor restrictions that increase those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as net assets with donor restrictions. Bequests are recorded as revenue when the probate courts declare a will valid and the proceeds are measurable. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts and perpetual trusts, are recorded as revenue when the trust agreements become irrevocable.

Contributions are recorded at fair value, which is net of estimated uncollectible amounts. The Foundation uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions, including multi-year pledges and split interest agreements to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Conditional promises to give, including those received under multi-year grant agreements, are recognized as revenue when the conditions on which they depend have been substantially met.

Grant revenue

The Foundation receives grant funding from federal agencies and private foundations. Revenue is recognized only to the extent of expenditures under the terms of the grants. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by the Foundation. Unexpended funds are returned to the grantors if required by the grant agreement. Expenditures incurred by the Foundation which have not yet been submitted to the government for reimbursement are recorded as contributions receivable.

At December 31, 2022 and 2021, Fisher House had remaining available award balances on the federal grants and contracts of $16,685,926 and $15,952,139, respectively. These award balances are not recognized as assets and will be recognized as revenue as the project progress and conditions are met, generally as expenses are incurred.

Special events revenue

Registration and fees are recognized upon completion of the related event. Some payments and fees are received in advance of the related event. These amounts are reflected in the accompanying statements of financial position as deferred revenue.

Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized as revenue and expenses in the statement of activities and change in net assets, none of which had donor- imposed restrictions, were comprised of:

December 31,	**2022**	2021	**Utilization**	**Valuation Techniques and Inputs**
Donated media and goods	**$ 8,756,610**	$ 6,141,775	Utilized within program services and fund-raising.	Donated media valued at determined rate from related companies making the donations. Donated goods are valued at estimated fair value based on current value for similar goods that are purchased or on retail values if none are purchased.
Donated air miles and hotel rewards points	**1,550,680**	930,917	Utilized within program services	Air miles and hotel rewards points are valued at their fair value as determined by the related airline's loyalty programs and by the hotels respectively.
Donated equipment	**186,496**	73,253	Utilized within program services	Valued at the standard hourly rental rates normally charged for such rental services.
Donated services	**13,453**	17,577	Utilized within program services, fundraising, management and general expenses	Fair value as determined by the current market rates for such services.
Total contributed Nonfinancial assets	**$ 10,507,239**	$ 7,163,522		

Donated media time is used for public service announcements, radio promotions, and magazine ads is reported at its fair value at the determined rate from the related companies making the donation as of the date of donation. Donated goods consist of contributed merchandise, phone cards with stored value, and gift certificates.

Donated air miles are not valued until they are redeemed by the Foundation and used in the Hero Miles Programs. The Foundation's Hero Miles Program provides service members, veterans, and their families who meet certain criteria free round-trip tickets using donated frequent flyer miles. During 2022 and 2021, the Foundation provided 1,183 and 815 free round-trip tickets, respectively. These tickets were valued at approximately $1,466,000 and $799,000, for the years ended December 31, 2022 and 2021 respectively.

Donated hotel rewards points are not valued until they are redeemed by the Foundation and used in the Hotels for Heroes Programs. The Foundation's Hotels for Heroes Program provides qualified service members, veterans, and their families free hotel rooms, using donated hotel reward points, when rooms at a Fisher House are not available. During 2022 and 2021, the Foundation provided 507 and 780 nights of lodging, respectively which were valued at approximately $84,680 and $131,917 respectively.

Magazine printing and photography services donated as part of program services, fundraising, or management and general expenses are recorded in the accompanying financial statements at their fair value as determined by the current market rates for such services. Donated equipment relates to donated rental construction equipment.

Cash equivalents

The Foundation considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Pledges and contributions receivable

Pledges and contributions receivable are recorded at face value, and then discounted to present value using interest rates appropriate to the estimated length of time for realization. All pledges and contributions receivable are reviewed annually for future collectability. Management determines the allowance for doubtful receivables by regularly evaluating individual receivables and considering the donor's financial condition and current economic conditions.

Construction-in-progress

Costs of construction of Fisher Houses to be donated are capitalized as incurred. All costs incurred in connection with the construction of a Fisher House are expensed when the house is donated.

Lease accounting

The Foundation assesses contracts at inception to determine whether an arrangement includes a lease, which conveys the Foundation's right to control the use of an identified asset for a period of time in exchange for consideration. The Foundation determines whether the lease classification is an operating or financing lease at the commencement date.

The Foundation has operating and finance leases for which right-of-use assets and lease liabilities are recorded in the accompanying statements of financial position in accordance with FASB ASC 842, *Leases*. The Foundation measures its operating and finance lease assets and liabilities using a risk-free rate of return selected based on the term of the lease.

As a matter of policy, the Foundation has elected to exclude leases with terms of 12 months or less ("Short-Term") from the statements of financial position. The Foundation had no short-term leases as of December 31, 2022.

The Foundation considered the likelihood of exercising renewal or termination terms in measuring the right-of-use assets and lease liabilities. If the Foundation was not reasonably certain that a lease would be extended or terminated early, the additional term was not included in the determination of the lease liability and right-of-use asset.

The Foundation's office space includes non-lease components such as common-area maintenance costs, utilities, and other maintenance costs. The Foundation has elected to include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities to the extent that they are fixed or variable based on an index or rate. Non-lease components that are not fixed are expensed as incurred as variable lease payments.

Split-interest agreement

The Foundation is one of the beneficiaries of a certain Charitable Lead Annuity Trust (the Trust). Under this agreement, the Foundation records a contribution with a donor restriction at the present value of the estimated future benefits to be received. Subsequent changes in fair value are recorded as changes in the value of the agreement in the net assets with donor restrictions class. Distributions from the Trust are reflected as reductions in net assets with donor restrictions and reclassified from net assets with donor restrictions to net assets without donor restrictions.

Property and equipment

The Foundation's policy is to capitalize property and equipment in excess of $1,000. Property and equipment are stated at cost. Expenditures for major additions and improvements are capitalized; and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to five years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the term of the related lease.

Donated securities

Donated securities are reported at their fair value as of the date of donation. Sales of such securities are recorded on a trade-date basis.

Valuation of long-lived assets

The Foundation reviews the valuation of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No indicators of impairment were identified as of December 31, 2022 and 2021.

Net assets

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

Net assets without donor restrictions – Net assets without donor restrictions are those net assets that are not subject to donor or grantor-imposed restrictions.

Net assets with donor restrictions - Net assets with donor restrictions generally result from net contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and the restriction removed by actions of the Foundation pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Additionally, there are some donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes. The Foundation's donor-restricted endowment is subject to the authoritative guidance issued by the FASB on net asset classifications of endowment funds, such that earnings on donor-restricted endowments are reflected as net assets with donor restrictions until such amounts are appropriated for expenditure.

Functional allocation of expenses

The costs of providing the Foundation's programs and other activities have been summarized on a functional basis in the accompanying statements of activities and change in net assets. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and related benefits are allocated based upon executive level timesheets or job descriptions. The percentage derived from payroll costs is used to allocate overhead costs to activities benefited. Overhead costs are those expenses that cannot be tied directly to an activity including some expenses in the natural expense categories of printing and publications, travel, depreciation and amortization, consulting and professional fees, rent, office expenses, insurance, and other.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). No provision for income taxes was recorded during the years ended December 31, 2022 and 2021 since the Foundation had no significant unrelated business income. The Foundation is not a private Foundation pursuant to section 509(a)(1) of the IRC.

In accordance with authoritative guidance issued by the FASB, the Foundation recognizes tax liabilities when, despite management's belief that tax return positions are supportable, the Foundation believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2018 and prior. Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no material uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Concentrations of credit risk

The Foundation's assets that are exposed to credit risk consist primarily of cash and cash equivalents, pledges and contributions receivable and split-interest agreement receivable. Cash and cash equivalents are maintained at financial institutions, and, at times, balances may exceed federally insured limits. The Foundation has not experienced losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2022 approximate $63.3 million. The Foundation's pledges, split-interest agreement receivable, contributions, and notes receivable balances consist primarily of amounts due from individuals and corporations. The Foundation maintains reserves for potential credit losses when deemed necessary and historically such losses have been within management's expectations.

Recently adopted authoritative guidance

On January 1, 2022 (the adoption date), management adopted FASB Accounting Standards Updates (ASU) 2016-02, *Leases* (ASC 842), and the additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, ASC 842). ASC 842 modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. Management adopted ASC 842 using the modified retrospective transition method, under which amounts in prior periods presented herein were not restated. For contracts existing at the time of adoption, management elected the package of practical expedients and did not reassess (i) whether any are or contain leases, (ii) lease classification, and (iii) initial direct costs.

The adoption of ASC 842 resulted in the following as of the adoption date:

Recognition of:	
Operating lease right-of-use assets	$ 949,399
Operating lease liabilities	1,110,008
Finance lease right-of-use assets	17,403
Finance lease liabilities	17,403
Derecognition of:	
Deferred rent	160,609
Total	$ 160,609

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (ASC 958): 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 the principal and most advantageous market utilized to calculate fair value if it is a market in which the nonprofit is restricted by the donor from selling or utilizing the contributed nonfinancial assets. This ASU was applied on a retrospective basis and was effective for the Foundation's fiscal year ending December 31, 2022. The adoption of this guidance did not have a material impact to the financial statements and disclosures. Refer to Note 1 for disclosures related to contributed nonfinancial assets.

Recent accounting pronouncements not yet adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (ASC 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for the Foundation's fiscal year ending December 31, 2023. Management is currently evaluating this ASU to determine the impact, if any, on its financial statements and disclosures.

2. Pledges and Contributions Receivable, Net

Pledges and contributions receivable consist of the following at December 31:

	2022	2021
Due in less than one year	**$ 5,978,636**	$ 3,924,771
Due in one to five years	**3,120,071**	4,117,846
	$ 9,098,707	$ 8,042,617

3. Split-interest Agreement Receivable

The Foundation is one of the beneficiaries of a certain Charitable Lead Annuity Trust that is controlled by a third-party trustee. Under the agreement, the Foundation receives fixed annual distributions from the trust through January 2027. These payments are guaranteed irrespective of market performance of the investments. Annual distributions under the terms of this agreement as of December 31, 2022 are as follows:

Years ending December 31,	
2024	$ 48,145
2025	48,145
2026	48,145
2027	46,561
Less: discount for present value	(9,038)
	$ 181,958

The Foundation used a discount rate of approximately 2.0% in determining the present value of the annual distributions to be collected at the time the Charitable Lead Annuity Trust was established.

4. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Furniture and fixtures	**$ 164,528**	164,528
Computer and other equipment	**65,496**	65,496
Leasehold improvements	**37,618**	37,618
	267,642	267,642
Less: accumulated depreciation and amortization	**(244,688)**	(201,398)
	$ 22,954	66,244

5. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

December 31,	2022	2021
Purpose restrictions:		
Construction of Fisher Houses	**$ 8,260,781**	$ 6,553,326
Support of Designated Fisher Houses	**1,373,274**	903,255
Other	**204,614**	523,708
Time and purpose restrictions:		
Construction of Fisher Houses	**4,365,000**	4,000,000
Scholarship Program	**820,000**	1,650,000
Heroes Program or Other	**57,941**	-
Time restrictions:		
Split interest in trusts held by others	**288,958**	290,640
Perpetual-in-nature:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor (Note 6)	**750,000**	750,000
Underwater endowment funds (Note 6)	**(9,272)**	(19,167)
	$ 16,111,296	$ 14,651,762

During the years ended December 31, 2022 and 2021, net assets with donor restrictions were released, based on the Foundation's satisfaction of donor stipulations, as follows:

December 31,	2022	2021
Scholarship programs	**$ 1,589,592**	$ 1,395,114
Designated houses	**1,311,623**	1,844,764
Heroes and Sponsor-a-Family Programs	**624,836**	1,108,393
Construction of Fisher Houses	**4,563,009**	3,536,020
Other	**1,950,832**	590,765
Time restrictions	**43,681**	42,835
	$ 10,083,573	$ 8,517,891

6. Endowment

The Foundation's endowment consists of a donor-restricted endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. This endowment was established in 2008 with a perpetual donor restriction on the corpus of $750,000, with investment earnings on the fund to be used by the Foundation for the SFMC (Scholarship for Military Children) scholarship program.

The Board of Trustees of the Foundation has interpreted Maryland 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 Foundation classifies as net assets with donor restrictions, perpetual-in-nature (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 as net assets with donor restrictions, perpetual-in-nature is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

As of December 31, 2022 and 2021, the Foundation's endowment had the following net asset composition:

		With donor Restrictions 2022	With donor Restrictions 2021
Donor-restricted endowment fund:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$	**750,000**	750,000
Accumulated losses on the investments		**(9,272)**	(19,167)
Total endowment funds	$	**740,728**	730,833

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2020	$ -	$ 730,457	$ 730,457
Investment return, net	-	376	376
Endowment net assets, December 31, 2021	-	730,833	$ 730,833
Investment return, net	-	9,895	9,895
Endowment net assets, December 31, 2022	**$ -**	**$ 740,728**	**$ 740,728**

Underwater endowment

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with authoritative guidance issued by the FASB, deficiencies of this nature are reported in net assets with donor restrictions. For the years ending December 31, 2022 and 2021, the cumulative amount of deficiencies reported in net assets with donor restrictions was $9,272 and $19,167, respectively.

Spending policy and investment objectives related to spending policy

The Foundation has adopted investment and spending policies for cash contributions with donor restrictions that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. All earnings from these funds are reflected as net assets with donor restrictions, until appropriated for program expenditures.

7. Benefit Plan

The Foundation maintains a defined contribution 401(k) profit sharing plan (the Plan) for all employees who are over the age of 21. Participants may make voluntary contributions up to the maximum amount allowable by law. The Foundation’s contributions to the Plan are at the discretion of management and vest to the participants immediately.

The Foundation recorded contributions to the Plan of $133,471 and $123,838 for the years ended December 31, 2022 and 2021, respectively.

8. Related Party Transactions

For the years ended December 31, 2022 and 2021, certain officers and trustees made contributions to the Foundation totaling $81,718 and $120,953, respectively. Further, affiliates of certain trustees made contributions of $25,000 during each of the years ended December 31, 2022 and 2021, respectively.

For the years ended December 31, 2022 and 2021, the Foundation did not compensate any officer of the Foundation.

9. Major Grantors and Donors

For the year ended December 31, 2022, seventeen donors and grantors accounted for 34% of the Foundation's revenue. For the year ended December 31, 2021, twelve donors and grantors accounted for 27% of the Foundation's revenue.

As of December 31, 2022, three donors and grantors represent 44% of the pledges and contributions receivable balance. As of December 31, 2021, three donors and grantors represented 62% of the pledges and contributions receivable balance.

10. Lease Commitments

The Foundation has operating and finance lease arrangements which expire at various dates from fiscal year 2024 to fiscal year 2026.

The Foundation assesses contracts at inception to determine whether an arrangement includes a lease, which conveys the Foundation right to control the use of an identified asset for a period of time in exchange for consideration. Effective January 1, 2022, all lease agreements are accounted for under FASB ASC 842, while, for the year ended December 31, 2021, leases were accounted for under the previous lease standard, FASB ASC 840. Under adoption of ASC 842, and as described in Note 1, the Foundation elected numerous practical expedients with respect to leases existing as January 1, 2022.

Operating Leases

The Foundation has recorded right-of-use assets in the accompanying statement of financial position as of December 31, 2022 for the following operating leases relating to its office space:

a) The Foundation has an operating lease in Maryland for renting 7,836 square feet of space dedicated for general business operations. The lease will expire on February 28, 2026, and the Foundation has an option of an early termination of the lease. However, the Foundation does not expect to exercise this option. Rental payments under the lease are approximately $261,600 per year and are subject to a 2.5% increase at the beginning of each lease year. Rental payments under these leases include base rental amounts for the terms of each lease unless the lease contains variable costs based on an index or rate. If a lease does include indexed or variable costs at a specific rate, the Foundation includes those costs as part of operating lease expense.

b) Storage space - The Foundation is renting space for general storage of business records. The lease expires on February 28, 2026. Rental payments under the lease are approximately $6,800 per year.

c) Parking space - The Foundation is renting space for employee parking. The lease expires on February 28, 2026. Rental payments under the lease are approximately $19,400 per year.

The Foundation's operating leases do not contain residual value guarantees. The Foundation's office spaces typically include non-lease components such as common-area maintenance costs, utilities, and other maintenance costs. The Foundation has elected to include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities to the extent that they are fixed or variable based on an index or rate. Non-lease components that are not fixed are expenses as incurred as variable lease payments.

The Foundation has elected the practical expedient to forgo applying the recognition requirements in ASC 842 to short-term leases. The Foundation had no short-term leases at December 31, 2022.

Finance Lease

The Foundation has recorded a right-of-use asset balance in the accompanying statement of financial position as of December 31, 2022 for the lease of a copier. The lease expires on December 31, 2024. Rental payments under the lease are approximately $6,600 per year. The Foundation's finance lease does not include variable lease payments.

The maturity of the lease liability under the Foundation's operating and finance leases as of December 31, 2022 is as follows:

Years Ending December 31,	Operating Leases	Finance Lease
2023	$ 287,892	$ 6,660
2024	294,597	4,995
2025	301,462	-
2026	50,628	-
	934,579	11,655
Less: imputed interest	(20,296)	(119)
Lease liabilities recognized	$ 914,283	$ 11,536

Within the statement of functional expenses, operating lease expense is included in "Rent expense" while amortization expense and interest expense is included in "Office expenses, insurance and other".

These amounts for the year ended December 31, 2022 were as follows:

Operating lease costs (costs resulting from lease payments)	**$ 237,815**
Amortization of right-of-use assets – finance leases	**20,863**
Interest on lease liabilities – finance leases	**176**
Total lease costs	**$ 258,854**

Supplemental quantitative information related to operating and finance leases for the year ended December 31, 2022:

	Operating Leases	Finance Leases
Cash paid for amounts included in the measurement of lease liabilities	$ 265,771	$ 21,646
Weighted – average remaining lease terms	3.16	1.78
Weighted – average discount rate	1.42 %	1.20%

Previous lease standard (ASC 840) – Fiscal year 2021

The Foundation leases office space under the terms of a non-cancelable operating lease that expires in February 2026. The lease agreement provides for an annual 2.5% escalation of the base rent and a ten-month abatement period. The Foundation is also responsible for certain operating expenses. The following is a schedule by year of the approximate future minimum lease payments required under this operating lease as of December 31, 2021:

Years ending December 31,	
2022	$ 268,620
2023	268,510
2024	275,220
2025	282,080
2026	47,400
	$ 1,141,830

The Foundation recognized the total cost of its office lease ratably over the respective lease periods. The difference between rent paid and rent expense was reflected as deferred rent in the accompanying statements of financial position.

Rent expense aggregated $238,537 for the year ended December 31, 2021.

11. Liquidity and Availability of Resources

The following represents the Foundation's financial assets available within one year of the statements of financial position date for general expenditures:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	**$ 64,328,647**	$ 59,363,977
Pledges and contributions receivable, net	**9,098,707**	8,042,617
Total financial assets	**73,427,354**	67,406,594
Less: amounts not available for general expenditures within one year:		
Net assets with donor restrictions	**(16,111,296)**	(14,651,762)
Pledges and contributions receivable to be received in more than one year	**(3,120,071)**	(4,117,846)
Financial assets not available for general expenditures within one year	**(19,231,367)**	(18,769,608)
Financial assets available to meet cash needs for general expenditures within one year	**$ 54,195,987**	$ 48,636,986

The Foundation analyzes its cash position before each project and commits to a construction project when there is cash on hand to fund the project along with all expected operating expenditures for one year into the future. The Foundation has averaged over $30 million in contributions with no donor restrictions over the last five years and expects to maintain this in the next year. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations are due. The Foundation invests excess cash in a strategic liquidity account which allows withdrawals with 30 days' notice. The Foundation believes its available resources and future earnings will provide more than adequate resources to meet their financial obligations for the year following the statement of financial position date of December 31, 2022.

12. Subsequent Events

The Foundation has evaluated its December 31, 2022 financial statements for subsequent events through June 29, 2023, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Schedule of Expenditures of Federal Awards

Fisher House Foundation, Inc.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided To Subrecipients	Total Federal Expenditures
Department of Defense:				
Construct and Furnish Fisher Houses	12.460	-	$ -	$ 4,266,214
Total Department of Defense			-	4,266,214
Total Expenditures of Federal Awards			$ -	$ 4,266,214

The accompanying notes are an integral part of this schedule.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Fisher House Foundation under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fisher House Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Fisher House Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Fisher House Foundation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance

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8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Fisher House Foundation, Inc.
Rockville, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fisher House Foundation (the Foundation), which comprise the Foundation's statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
June 29, 2023

Tel: 703-893-0600
Fax: 703-893-2766
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8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report on Compliance For the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Fisher House Foundation, Inc.
Rockville, Maryland

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Fisher House Foundation (the Foundation) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended December 31, 2022. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
June 29, 2023

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	X Yes	____ None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over the major federal program:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Type of auditor's report issued on compliance for the major federal program:	Unmodified	
Any audit findings disclosed that are required to to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	X No

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
12.460	U.S. Department of Defense

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

Finding 2022-001 – Lack of an Effective Internal Control Environment

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines "internal control" as a process used by a company's board of directors, management, and other employees, to provide reasonable assurance regarding the achievement of the organization's objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; (3) Compliance with applicable laws and regulations.

A deficiency in internal control exists when a control does not allow management or employees to prevent, or detect and correct, misstatements on a timely basis.

Condition: The Foundation has various formal and informal policies relating to vendor checks and verifications. For one vendor, the documentation relating to these checks and verifications was not properly maintained and documented. Management was able to compile the information (from individual employees' files) that satisfied what should have been maintained in a dedicated file for its vendors.

Cause: This lapse in internal control was not detected due to a lack of clearly defined lines of authority and responsibility within the Foundation's financial reporting function.

Effect or Potential Effect: Lack of maintaining appropriate and required documentation in accordance with the Foundation's internal control policy could result in noncompliance with the Foundation's internal control policies and procedures.

Recommendation: We recommend the Foundation perform a business process mapping review which is a simple framework that depicts a visual representation of all core processes within the Foundation, detailing the relationship between each process, the decision points and where the lines of responsibility and accountability are. We recommend that the Foundation perform this independent review of their internal control environment, including its financial reporting process, identifying the responsible process owners and the related controls. This review would highlight any inefficiencies, duplications or gaps in the Foundation's current internal control environment.

Views of Responsible Officials: The Foundation concurs with this finding. The Foundation's corrective action is described in the Management's Corrective Action Plan included below.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs for federal awards (as defined in Section 2 CFR 200.516(a) of the Uniform Guidance) that are required to be reported.

Management's Corrective Action Plan

FISHER HOUSE FOUNDATION, INC.
www.fisherhouse.org
12300 Twinbrook Parkway,
Suite 420
Rockville, MD 20852
Tel: 301-294-8560
Fax: 301-294-8562
info@fisherhouse.

Date: June 7, 2023
To: BDO Auditors
From: Angela Ranero
Subject: Management's Corrective Action Plan

BDO reported a significant deficiency related to a lack of effective internal control environment. The Foundation will do an internal control evaluation of the accounting processes to include roles and responsibilities with an emphasis on proper internal controls to mitigate additional issues in our financial reporting environment. This project is expected to be completed by the end of the 3rd quarter 2023. The Foundation believes this review and clearly defining staff roles will improve the defined lines of authority and responsibility and identify responsible process owners. Upon completion of the project, the Foundation will investigate options to pursue BDO's recommendation for a review of processes within the Foundation.

Angela Ranero
Chief Accountant