

INFINITE HERO FOUNDATION



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Financial Statements

For the years ended December 31, 2017 and 2016

Infinite Hero Foundation
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CERTIFIED PUBLIC ACCOUNTANTS

Principals
Thomas R. Madigan
Mark D. Murphy
Doris D. Farinacci
Mark A. Simurda

Independent Auditor's Report

To the Board of Directors of
Infinite Hero Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Infinite Hero Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Infinite Hero Foundation as of December 31, 2017 and 2016, 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.


Newport Beach, California
October 30, 2018

Infinite Hero Foundation
Statements of Financial Position
As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Assets		
Cash and cash equivalents	\$ 436,466	\$ 235,416
Royalties receivable	7,312	23,023
Contribution receivables	32,865	25,398
Intangible assets	<u>1,970</u>	<u>2,000</u>
 Total assets	 <u>\$ 478,613</u>	 <u>\$ 285,837</u>
 Liabilities and Net Assets		
Accounts payable	\$ -	\$ 3,718
Accrued expenses	<u>3,573</u>	<u>10,696</u>
 Total liabilities	 <u>3,573</u>	 <u>14,414</u>
 Net assets - unrestricted	 <u>475,040</u>	 <u>271,423</u>
 Total liabilities and net assets	 <u>\$ 475,040</u>	 <u>\$ 285,837</u>

The accompanying notes are an integral part of these financial statements

Infinite Hero Foundation
Statements of Activities
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Contributions	777,525	\$ 459,812
In-kind support	2,808,863	2,710,380
Events	71,412	128,701
Less: Direct benefits to donors	(31,000)	(19,204)
Royalty income	140,433	178,024
Investment income	<u>51</u>	<u>232</u>
 Total revenues	 <u>3,767,284</u>	 <u>3,457,945</u>
 Expenses:		
Program services	3,266,310	3,721,040
Fundraising	229,809	262,322
Management and general	<u>67,548</u>	<u>77,397</u>
 Total expenses	 <u>3,563,668</u>	 <u>4,060,759</u>
 Change in net assets - unrestricted	 203,616	 (602,814)
 Net assets at beginning of year	 <u>271,423</u>	 <u>874,237</u>
 Net assets at end of year	 <u>\$ 475,039</u>	 <u>\$ 271,423</u>

The accompanying notes are an integral part of these financial statements

Infinite Hero Foundation
Statement of Functional Expenses
Year Ended December 31, 2017

	<u>Program Services</u>		<u>Support Services</u>		
	<u>Support Grants</u>	<u>Public Awareness</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Support Grants	\$ 305,100	\$ -	\$ -	\$ -	\$ 305,100
Salaries and Benefits	23,896	-	25,302	102,275	151,473
Advertising and Promotion	4,097	15,103	6,118	17,456	42,774
Donated Media Space	-	2,750,000	-	-	2,750,000
Supplies and Materials	9,372	9,709	4,877	2,733	26,691
Printing and Publications	-	12,826	1,246	3,778	17,850
Travel	43,359	33,771	4,184	35,235	116,549
Facility and Equipment	-	-	1,483	64,602	66,085
Professional Services	25,062	31,075	20,778	1,837	78,752
Insurance	-	-	4,915	-	4,915
Other	2,940	-	(1,355)	1,893	3,478
	<u>\$ 413,826</u>	<u>\$ 2,852,484</u>	<u>\$ 67,548</u>	<u>\$ 229,809</u>	<u>\$ 3,563,667</u>
Total Expenses	<u>\$ 413,826</u>	<u>\$ 2,852,484</u>	<u>\$ 67,548</u>	<u>\$ 229,809</u>	<u>\$ 3,563,667</u>

The accompanying notes are an integral part of these financial statements

Infinite Hero Foundation
Statement of Functional Expenses
Year Ended December 31, 2016

	<u>Program Services</u>		<u>Support Services</u>		<u>Total Expenses</u>
	<u>Support Grants</u>	<u>Public Awareness</u>	<u>Management and General</u>	<u>Fundraising</u>	
Support grants	\$ 836,990	\$ -	\$ -	\$ -	\$ 836,990
Salaries and benefits	22,688	30,190	30,250	68,123	151,251
Advertising and promotion	19,211	24,731	896	13,020	57,858
Donated media space	-	2,700,000	-	-	2,700,000
Donated services and supplies	-	2,500	7,500	623	10,623
Supplies and materials	2,057	2,012	4,548	28,447	37,064
Printing and publications	107	1,492	99	1,700	3,398
Conferences and meetings	515	-	-	20,939	21,454
Travel	13,685	16,419	1,508	81,957	113,569
Occupancy and equipment	2,943	-	2,880	6,808	12,631
Professional services	-	45,500	21,000	37,126	103,626
Insurance	-	-	4,716	-	4,716
Amortization of intangible assets	-	-	1,225	-	1,225
Other	-	-	2,775	3,579	6,354
	<u>-</u>	<u>-</u>	<u>2,775</u>	<u>3,579</u>	<u>6,354</u>
Total expenses	<u>\$ 898,196</u>	<u>\$ 2,822,844</u>	<u>\$ 77,397</u>	<u>\$ 262,322</u>	<u>\$ 4,060,759</u>

The accompanying notes are an integral part of these financial statements

Infinite Hero Foundation
Statements of Cash Flows
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 203,616	\$ (602,814)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of intangible assets	30	1,225
Changes in operating assets and liabilities		
Royalties receivable	15,711	(6,336)
Other receivables	(7,467)	(18,946)
Accounts payable	(3,718)	(6,452)
Accrued expenses	<u>(7,123)</u>	<u>(3,029)</u>
Net cash provided by (used in) operating activities	<u>201,049</u>	<u>(636,352)</u>
Cash flows from investing activities:	<u>-</u>	<u>-</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	201,049	(636,352)
Cash and cash equivalents, beginning of year	<u>235,416</u>	<u>871,768</u>
Cash and cash equivalents, end of year	<u>\$ 436,465</u>	<u>\$ 235,416</u>

The accompanying notes are an integral part of these financial statements

Infinite Hero Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Note 1. Description of Infinite Hero Foundation

Infinite Hero Foundation (the “Foundation”) was incorporated on March 17, 2011 as a non-profit public benefit corporation under the laws of the state of California.

The Foundation’s mission is to combat the most difficult front-line issues, both mental and physical, facing military heroes and their families by increasing the availability of critical mental and physical health services and investing in innovative strategies and therapies to accelerate rehabilitation and recovery. The Foundation seeks to fulfill its mission by: (i) raising public awareness of the need to support members of the military community and (ii) supporting organizations that are dedicated to, and provide services in furtherance of, the Foundation’s mission.

Raising Public Awareness

The Foundation raises public awareness of its mission, and solicits contributions, at public and charity events and through other traditional communication channels as well as through its web site (www.infinitehero.org) and the use of social media. The Foundation also works with corporate partners to spread awareness to their consumers and social media followers. From time to time the Foundation also holds charity events. Given the proximity to military installations such as the Naval Base San Diego, Camp Pendleton and the Los Angeles Air Force Base, the Foundation believes this area is an ideal environment in which to raise public awareness of the need to support, and to promote activities designed to support, military personnel.

Grant Making

The Foundation is committed to dedicating its resources and property for the beneficial use of charitable causes consistent with its mission statement. The Foundation’s program services principally consist of support grants it makes to specially selected nonprofit organizations to fund programs that directly benefit our military heroes and their families and to promote the development of innovative rehabilitative programs and therapies. Since its inception, the Foundation has made grants totaling approximately \$3,300,000 in furtherance of its mission.

During the years ended December 31, 2017 and 2016 the Foundation made grants of \$305,100 and \$836,990 respectively. The support grant expenses have been included in Program Services expenses in the statement of activities.

Note 1. Description of Infinite Hero Foundation (Continued)

Corporate Partnerships Agreements

Because the Foundation's name, logo and trade dress (the "IHF Marks") are associated with its mission statement, the Foundation intends to license the IHF Marks to corporate partners for use in connection with the sale of such parties' commercial products ("Signature Products"), usually in exchange for a donation to the Foundation of a portion of the proceeds from the sale of such Signature Products. The production, marketing and sale of Signature Products will be undertaken by the Foundation's corporate partners, and the Foundation anticipates these activities will serve to inform consumers of the Foundation's mission statement. Consequently, the Foundation expects the sale of Signature Products by its corporate partners will both raise awareness of, and funds for, the support of its mission. In 2011, the Foundation entered into its first licensing arrangement for the sale of Signature Products with Oakley, Inc. ("Oakley"). In June 2011 Oakley began selling a line of Signature Products including eyewear, apparel and accessories (see Note 4). The original arrangement had a termination date of June 2014. In 2014, the original arrangement was amended to extend the term of the royalty arrangement to June, 2017. The Foundation continues to receive royalties from this licensing arrangement and is in the process of renewing the term of the arrangement.

Note 2. Summary of Significant Accounting Policies

The Foundation has prepared these financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") for not-for-profit entities. The significant accounting and reporting policies used by the Foundation are described herein to enhance the usefulness and understandability of these financial statements.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of revenues and expenses for the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Foundation's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Foundation's management believes that the estimates and assumptions are reasonable in the circumstances. However, the actual results could differ from those estimates.

Net Assets

The Foundation has not received any asset whose use is limited by donor-imposed conditions. Consequently, the Foundation's net assets are classified as "unrestricted net assets" in the financial statements. Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements that are entered into in the course of its operations.

Note 2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. As of December 31, 2017 and 2016, substantially all of the Foundation's cash and cash equivalents consist of demand deposits held at a major financial institution. The Foundation holds yearly fundraising events to generate resources to meet cash needs for general expenditures for the following year.

Royalties Receivable

Royalties receivable as of December 31, 2017 and 2016 consists of amounts due from Oakley under the Signature Product Agreement (see Note 4). Management believes that the receivable is collectible in full; no allowance for uncollectible receivables is provided.

Intangible Assets

Intangible assets represent the capitalized costs related to the acquisition of the Infinite Hero logo and the www.infinitehero.org domain name from a related party (see Note 4).

Impairment of Long-Lived Assets

The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without an interest charge) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the carrying value of the asset to its estimated fair value. To date, no such write-downs have occurred.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Note 2. Summary of Significant Accounting Policies (continued)

As of December 31, 2017 and 2016, the Foundation has recognized contributions receivable of \$32,865 and \$25,398, respectively, in the accompanying statements of financial position.

In-Kind Support

The Foundation periodically receives contributions in a form other than cash or investments. The Foundation recognizes a contributed asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Foundation's capitalization policy. In 2017 and 2016, in-kind support also includes donated media space having an estimated fair value of \$2,750,000 and \$2,700,000, respectively. The Foundation estimates the fair value of donated media space based on available information about the amounts of cash typically paid by buyers for similar media space, standard discounts given for similarly placed media, the media type and placement and other considerations.

Donated use of facilities is reported as a contribution and as an expense at the estimated fair value of similar space for rent under similar conditions. Donated supplies are recorded as a contribution at the date of gift and as an expense when the donated items are placed into service or distributed. For the years ended December 31, 2017 and 2016, rent expense was \$0 and \$2,880 and donated materials of \$0 and \$3,123, respectively. The Foundation benefited from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Foundation's fundraising and public relations campaigns, management and administration. However, the majority of the contributed services do not meet the criteria for recognition in the accompanying financial statements. Under GAAP, the Foundation must recognize contributed services if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. For the years ended December 31, 2017 and 2016, donated services with an estimated fair value of \$0 and \$7,500, respectively, met those criteria and are included in in-kind contributions in the statements of activities. Those services consisted of accounting services (included in management and general expenses).

Event Revenues

Event revenues include donations for event sponsorship, attendance, auctions and related income. Auction proceeds are included in revenues to the extent the auction proceeds exceed the fair value of the goods or services received by the bidder. The cost of direct benefits to donors at events, such as meals or gift bags, are presented in the statements of activities as a reduction of event revenues.

Expense Recognition and Allocation

The cost of conducting the Foundation's programs and other activities is summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited. Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Note 2. Summary of Significant Accounting Policies (continued)

Program Expenses

Program expenses include grant payments and related costs; costs of advertising to raise public awareness. The Foundation makes grants to specially selected nonprofit organizations to fund programs that are in furtherance of, and consistent with, the Foundation's mission statement.

Program expenses include grant payments of \$305,100 and \$836,990, respectively for the years ended December 31, 2017 and 2016. In some cases, the Foundation's obligation to pay the grant funds is subject to the grantee's satisfaction of certain conditions or the occurrence of certain events. The Foundation recognizes grants as program expenses when paid, or when the Foundation has an unconditional obligation to pay the grant funds at a future date. As of December 31, 2017 or 2016, the Foundation had no unpaid obligations under grants. Program expenses for the years ended December 31, 2017 and 2016 also include donated media space having an estimated fair value of \$2,750,000 and \$2,700,000, respectively.

Fundraising Expenses

Fundraising costs are expensed as incurred, even though fundraising efforts may result in contributions received in future years. The Foundation generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when donor acknowledgements contain requests for contributions, joint costs are allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Advertising costs are expensed as incurred.

Tax Exempt Status

The United States Internal Revenue Service ("IRS") has determined that the Foundation is a public charity and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The IRS has also determined that contributions to the Foundation are tax deductible to donors under IRC Section 170. The California Franchise Tax Board ("FTB") has determined that the Foundation is exempt from California franchise and income taxes under Section 23701d of the California Revenue and Taxation Code. However, a tax exempt organization that generates income from a trade or business not substantially related to its charitable purpose could be subject to US federal income taxes and California franchise taxes on any such unrelated business income. For the years ended December 31, 2017 and 2016, the Foundation did not generate any such unrelated business income and was not subject to any unrelated business income taxes. The Foundation adopted the provisions of Accounting Standards Codification 740, *Income Taxes*, related to accounting for uncertain tax positions as of March 17, 2011 (inception). The Foundation files annual exempt organization information returns in the United States federal jurisdiction and with the FTB in the State of California. The Foundation has determined that it has no liabilities for uncertain tax positions as of December 31, 2017 or 2016. Consequently, the Foundation has not recognized any liabilities or expenses for uncertain tax positions, interest or penalties in the accompanying financial statements. The Foundation does not anticipate any material change in its assessment of uncertain tax positions will occur in the twelve months following December 31, 2017. The Foundation may from time to time be subject to routine audits by the IRS, FTB or other taxing authorities.

Note 2. Summary of Significant Accounting Policies (continued)

The Foundation's returns are generally open to audit for three years after the filing date for federal purposes and four years after the filing date for state purposes. Currently there are no audits in progress for any tax years.

Supplemental Cash Flow Information

The Foundation paid no interest or income taxes during the years ended December 31, 2017 and 2016.

Note 3. Fair Value Measurements

The Foundation measures fair values using a three-level hierarchy of inputs established by GAAP. This hierarchy prioritizes the inputs used to measure fair value, and requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets to which the Foundation has access at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and,
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The primary use of fair value measures in the Foundation's financial statements is the recognition of donated media space and in-kind contributions received from donors. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are generally not available for the particular assets and liabilities that the Foundation is required to measure at fair value.

Note 4. Related Party Transactions

Certain of the Foundation's officers and board members are also current or former officers, employees, or directors of Oakley. As of December 31, 2017, seven of the eight members of the Foundation's board of directors are not affiliated with Oakley.

Note 4. Related Party Transactions (Continued)

Other employees of Oakley have provided services to the Foundation in various volunteer capacities, including fundraising and management activities. During the years ended December 31, 2017 and 2016 the Foundation paid no compensation to any of the officers or board members affiliated with Oakley and officers or board members not affiliated with Oakley.

Logo and Internet Domain Name

In 2011, Oakley developed the Infinite Hero logo. Oakley also created and registered the internet domain name *www.infinitehero.org*. In 2011, the Foundation purchased the Infinite Hero logo and domain name from Oakley for \$2,000.

Signature Product Agreement

In June 2011, the Foundation entered into a Signature Product Agreement with Oakley. Under this agreement, the Foundation granted Oakley a non-exclusive, non-transferable right to use the IHF Marks in connection with the manufacture, distribution and sale of limited edition models of certain Oakley eyewear, apparel and accessories. In consideration for the use of the IHF Marks, Oakley agreed to pay royalties to the Foundation in an amount based on Oakley's net sales of Signature Products. The agreement initially had a three-year term and is subject to automatic termination if Oakley ceases to sell Signature Products. The term of the agreement ended in June 2017. The Foundation continues to receive royalties from this licensing arrangement and is in the process of renewing the term of the arrangement. For the years ended December 31, 2017 and 2016, the Foundation earned royalties of \$140,433 and \$178,024 under the Signature Product Agreement with Oakley.

Trademark Agreement

In June 2011, the Foundation entered into a Trademark Usage Agreement with Oakley. Under this agreement, Oakley granted the Foundation a non-exclusive right to use the Oakley name and certain Oakley trademarks and logos (collectively, the "Oakley Marks") in connection with the IHF Marks. As compensation for the use of the Oakley Marks, the Foundation paid Oakley a one-time royalty of \$8,000. The agreement initially has a three-year term and is cancellable by Oakley at any time, without cause, upon thirty days' prior written notice to the Foundation. The term of the agreement ended in June 2017. The organization is in the process of negotiating an extension of the agreement. As of December 31, 2017 and 2016, the intangible asset was fully amortized.

Note 5. Concentrations of Risk

Amounts held in financial institutions exceeded the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits at December 31, 2017 and 2016. The Foundation deposits its cash with high quality financial institutions, and management believes the Foundation is not exposed to significant credit risk on those amounts. Approximately 4 percent of the Foundation's revenues for the year ended December 31, 2017 and 5 percent of the Foundation's revenues for the year ended December 31, 2016 consisted of royalties received from Oakley under the Signature Product Agreement.

Note 6. Subsequent Events

The Foundation has evaluated all events subsequent to the statement of financial position as of December 31, 2017 through the date of issuance of these financial statements and has determined no significant events have occurred which would require disclosure.