



UNITED STATES NAVY MEMORIAL

701 Pennsylvania Avenue, NW • Washington, D.C. 20004-2608
(202) 737-2300 • www.navy memorial.org

Dear Friend of the Navy Memorial,

Thank you very much for your interest in the Navy Memorial.

2020 was a challenging year for everyone because of the pandemic, and it was similarly challenging for the United States Navy Memorial. After year-over-year increases of all key metrics in 2019, the Navy Memorial temporarily closed to the public on March 11, 2020.

We took immediate measures that mitigated the impact of the pandemic that resulted in thriving through the remainder of 2020. While our ability to deliver on the mission was hindered by the closing of the Visitors Center, we immediately pivoted to develop a robust online capability. This growth in mission delivery empowered the Navy Memorial to reach thousands of people in our effort *to Honor, Recognize and Celebrate the men and women of the sea services, past, present and future; and to inform the public about their service.*

Despite the pandemic, we did not miss one Wreath Laying Ceremony or commemorative event and, by going online, increased participation by 219%. We created a new speaker series, SITREP, named after the Situation Reports, created by commanders in the Navy to report on significant events or updates. The SITREP Speaker Series, like the wreath layings and other online programs, were designed to be sustainable after the pandemic. While we couldn't host the Lone Sailor Awards Dinner of the Delbert D. Black Leadership Awards Dinner in 2020 because of the pandemic, we produced online programs for both that were met with resounding acclaim and will be repeated, in addition to dinners, in the future.

We are still tracking on the creation of the National Chief's Mess, fulfilling our commitment to our focus on honoring, recognizing and celebrating the Navy Chief! While COVID delayed the opening, we are set to hire the staff in 2021 and invest in this largest effort at the Navy Memorial in decades.

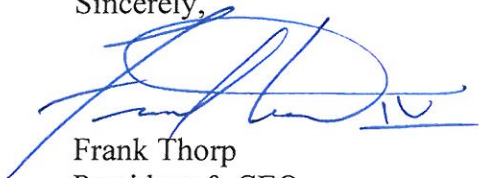
We continue our efforts to expand the Navy Log and are now well over 700,000 entries.

Because of COVID, \$378,000 in revenue for the Lone Sailor statue in Normandy and other deferred items could not be recognized that would have caused 2020 to be a good year financially. With this in mind, and as a result of effectively reducing expenses throughout the year, the Navy Memorial was able to significantly limit our losses in this pandemic year to only (\$87,971). Our reserves are more than enough to cover this deficit and we look forward to 2021 being a very good year for the Navy Memorial.

In conclusion, we again ended the year much stronger financially than we started. We could not have done this without our loyal supporters. Thank you!

We hope to see you soon at the Navy Memorial and thank you again for your support of the men and women of the sea services. If you have any questions, please contact me or Scott Matirne, Chief Financial Officer at SMatirne@NavyMemorial.org.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Frank Thorp', with a stylized flourish at the end.

Frank Thorp
President & CEO
United States Navy Memorial

**UNITED STATES NAVY MEMORIAL
FOUNDATION**

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2020 and 2019

And Report of Independent Auditor

UNITED STATES NAVY MEMORIAL FOUNDATION
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Report of Independent Auditor

The Board of Directors
United States Navy Memorial Foundation
Washington, D.C.

We have audited the accompanying financial statements of the United States Navy Memorial Foundation (the "Foundation") which comprise the statements of financial position as of December 31, 2020 and 2019, 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 controls relevant to the preparation and fair presentation of the 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the United States Navy Memorial Foundation as of December 31, 2020 and 2019, 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.

Cherry Bekaert LLP

Tysons Corner, Virginia
May 5, 2021

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 404,749	\$ 340,035
Investments	1,304,101	1,161,715
Accounts receivable, net	163,261	108,583
Other receivable	-	49,000
Promises to give	28,100	66,433
Prepaid expenses	228,432	205,830
Inventory, net	84,072	97,299
Property and equipment, net	929,485	913,020
Trademark, net	6,945	7,738
Total Assets	\$ 3,149,145	\$ 2,949,653
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 134,554	\$ 241,417
Annuities payable	263,674	296,111
Deferred revenue	598,263	388,030
Deferred rent	145,092	160,762
Paycheck Protection Program loan	232,200	-
Total Liabilities	1,373,783	1,086,320
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	929,485	913,020
Board-designated	475,000	375,000
Undesignated	(163,613)	(196,577)
Total Without Donor Restrictions	1,240,872	1,091,443
With Donor Restrictions:		
Subject to purpose restriction	341,603	579,233
Endowments	192,887	192,657
Total With Donor Restrictions	534,490	771,890
Total Net Assets	1,775,362	1,863,333
Total Liabilities and Net Assets	\$ 3,149,145	\$ 2,949,653

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Direct mail contributions	\$ 2,276,112	\$ -	\$ 2,276,112	\$ 2,283,476	\$ -	\$ 2,283,476
Special projects and events	771,589	-	771,589	1,032,065	-	1,032,065
Private gifts and grants	585,557	-	585,557	681,032	-	681,032
Navy ceremony	51,216	-	51,216	156,191	-	156,191
Visitor center	58,336	-	58,336	423,079	-	423,079
Affinity program	118,503	-	118,503	110,431	-	110,431
Auxiliary activity - store sales	99,825	-	99,825	246,641	-	246,641
Other income	3,114	-	3,114	106,658	-	106,658
Investment earnings	121,995	5,729	127,724	163,113	4,934	168,047
	4,086,247	5,729	4,091,976	5,202,686	4,934	5,207,620
Net assets released from restrictions	243,129	(243,129)	-	120,546	(120,546)	-
Total Revenue	4,329,376	(237,400)	4,091,976	5,323,232	(115,612)	5,207,620
Expenses:						
Program Services:						
Visitor center services	1,397,988	-	1,397,988	1,853,962	-	1,853,962
Special events	626,631	-	626,631	671,473	-	671,473
Educational services	405,394	-	405,394	653,525	-	653,525
Expenses of auxiliary enterprises	203,687	-	203,687	327,914	-	327,914
Total Program Services	2,633,700	-	2,633,700	3,506,874	-	3,506,874
Supporting Services:						
Fundraising	1,090,235	-	1,090,235	1,234,410	-	1,234,410
General and administrative	456,012	-	456,012	594,336	-	594,336
Total Supporting Services	1,546,247	-	1,546,247	1,828,746	-	1,828,746
Total Expenses	4,179,947	-	4,179,947	5,335,620	-	5,335,620
Net change in net assets	149,429	(237,400)	(87,971)	(12,388)	(115,612)	(128,000)
Net assets, beginning of year	1,091,443	771,890	1,863,333	1,103,831	887,502	1,991,333
Net assets, end of year	\$ 1,240,872	\$ 534,490	\$ 1,775,362	\$ 1,091,443	\$ 771,890	\$ 1,863,333

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program Services					Supporting Services		Total
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Total Program Services	Fundraising	General and Administrative	
Personnel costs	\$ 396,887	\$ 314,447	\$ 127,679	\$ 46,332	\$ 885,345	\$ 67,630	\$ 188,356	\$ 1,141,331
Occupancy costs	733,019	4,509	15,330	98,289	851,147	5,050	45,538	901,735
Printing	-	327	86,028	-	86,355	200,732	1	287,088
Project management fees	-	-	-	-	-	269,040	5,905	274,945
Postage	1,516	496	84,492	9,944	96,448	197,079	705	294,232
Mail shop	-	-	43,863	-	43,863	102,347	-	146,210
Event production	23,837	244,576	-	-	268,413	-	-	268,413
Depreciation and amortization expense	132,629	8,557	41,613	-	182,799	-	13,806	196,605
Food and beverage	5,255	9,472	-	-	14,727	-	180	14,907
Database and website maintenance and hosting	9,408	-	240	-	9,648	93,675	45,177	148,500
Professional fees and services	10,528	1,960	1,428	2,685	16,601	87,320	55,030	158,951
Building maintenance, equipment rental and custodial service	37,655	-	-	-	37,655	-	7,228	44,883
Costs of goods sold	3,400	6,400	-	40,316	50,116	-	-	50,116
Marketing	7,673	4,469	-	-	12,142	-	-	12,142
Supplies	13,709	4,572	72	947	19,300	15,013	11,543	45,856
Bank and credit card charges	4,874	8	-	2,997	7,879	14,593	13,611	36,083
Unrelated business income tax	-	-	-	-	-	-	28,084	28,084
List rental expense	-	-	-	-	-	22,736	-	22,736
CGA interest, adjustments and payments	-	-	-	-	-	-	17,539	17,539
Communications cost	7,896	6,352	2,539	918	17,705	1,373	4,493	23,571
Travel and transportation expense	1,013	4,627	-	-	5,640	-	95	5,735
Bad debt expense	3,223	15,000	-	-	18,223	-	-	18,223
Miscellaneous	3,516	859	2,110	1,259	7,744	1,758	18,721	28,223
Events and ceremonies	1,950	-	-	-	1,950	11,889	-	13,839
	<u>\$ 1,397,988</u>	<u>\$ 626,631</u>	<u>\$ 405,394</u>	<u>\$ 203,687</u>	<u>\$ 2,633,700</u>	<u>\$ 1,090,235</u>	<u>\$ 456,012</u>	<u>\$ 4,179,947</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services				Supporting Services			Total
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Total Program Services	Fundraising	General and Administrative	
Personnel costs	\$ 559,253	\$ 289,979	\$ 288,595	\$ 84,691	\$ 1,222,518	\$ 75,760	\$ 180,263	\$ 1,478,541
Occupancy costs	817,508	5,029	17,096	109,618	949,251	5,632	50,786	1,005,669
Printing	678	6,693	90,369	-	97,740	304,972	598	403,310
Project management fees	-	-	-	-	-	256,000	12,693	268,693
Postage	4,778	539	78,434	14,489	98,240	213,104	311	311,655
Mail shop	-	-	39,780	-	39,780	159,120	-	198,900
Event production	5,447	129,503	-	-	134,950	19,600	-	154,550
Depreciation and amortization expense	140,637	4,666	51,249	-	196,552	583	18,772	215,907
Food and beverage	82,705	124,632	-	-	207,337	-	2,747	210,084
Database and website maintenance and hosting	-	-	1,708	-	1,708	93,675	51,833	147,216
Professional fees and services	22,541	5,592	218	5,849	34,200	5,032	183,170	222,402
Building maintenance, equipment rental and custodial service	62,789	4,073	930	-	67,792	-	5,654	73,446
Costs of goods sold	4,400	5,060	-	102,191	111,651	-	64	111,715
Marketing	3,024	3,261	8,500	398	15,183	-	80	15,263
Exhibits	-	-	57,514	-	57,514	-	-	57,514
Supplies	25,104	1,707	1,373	1,579	29,763	15,555	10,759	56,077
Bank and credit card charges	15,886	196	-	6,574	22,656	14,622	16,287	53,565
Unrelated business income tax	-	-	-	-	-	-	44,729	44,729
List rental expense	-	-	-	-	-	28,671	-	28,671
Video production	9,114	15,626	8,900	-	33,640	-	-	33,640
CGA interest, adjustments and payments	-	-	-	-	-	-	(14,176)	(14,176)
Silent auction	-	-	-	-	-	33,863	-	33,863
Communications cost	10,600	5,186	4,811	1,515	22,112	1,355	3,513	26,980
Travel and transportation expense	14,896	6,949	1,404	-	23,249	-	4,063	27,312
Venue rental	-	32,000	-	-	32,000	-	-	32,000
Bad debt expense	10,999	30,602	-	-	41,601	-	16,595	58,196
Miscellaneous	61,120	180	2,644	1,010	64,954	2,261	5,357	72,572
Awards and gifts	-	-	-	-	-	4,605	238	4,843
Events and ceremonies	2,483	-	-	-	2,483	-	-	2,483
	<u>\$ 1,853,962</u>	<u>\$ 671,473</u>	<u>\$ 653,525</u>	<u>\$ 327,914</u>	<u>\$ 3,506,874</u>	<u>\$ 1,234,410</u>	<u>\$ 594,336</u>	<u>\$ 5,335,620</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net change in net assets	\$ (87,971)	\$ (128,000)
Adjustments to reconcile net change in net assets to net cash flows from operating activities:		
Depreciation and amortization	196,605	215,907
Bad debt expense	18,223	58,196
Donated securities	(14,858)	(59,893)
Change in fair value of annuity payable	17,569	37,242
Premium on annuity payable	-	(48,991)
Realized and unrealized gains on investments	(88,523)	(138,496)
Changes in operating assets and liabilities:		
Accounts receivable	(72,901)	60,024
Other receivable	49,000	(49,000)
Promises to give	38,333	(46,148)
Prepaid expenses	(22,602)	(41,437)
Inventory	13,227	13,547
Accounts payable and accrued expenses	(106,863)	(213,544)
Deferred revenue	210,233	146,788
Deferred rent	(15,670)	(9,664)
Net cash flows from operating activities	<u>133,802</u>	<u>(203,469)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	150	673
Purchases of investments	(39,155)	(30,729)
Purchases of property and equipment	(212,277)	(80,403)
Net cash flows used in investing activities	<u>(251,282)</u>	<u>(110,459)</u>
Cash flows from financing activities:		
Receipt of charitable gift annuities	-	100,000
Payments of annuity obligations	(50,006)	(115,873)
Proceeds from Paycheck Protection Program loan	232,200	-
Net cash flows from financing activities	<u>182,194</u>	<u>(15,873)</u>
Net change in cash and cash equivalents	64,714	(329,801)
Cash and cash equivalents, beginning of year	340,035	669,836
Cash and cash equivalents, end of year	<u>\$ 404,749</u>	<u>\$ 340,035</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 28,084</u>	<u>\$ 44,729</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies

Organization – The United States Navy Memorial Foundation (the “Foundation”) is a nonprofit organization dedicated to the education of the general public regarding the maritime heritage of the United States and the contribution of the United States Navy personnel to that maritime heritage. The Foundation constructed a national monument, including the statue of The Lone Sailor, in Washington, D.C., in honor and in memory of all United States Sea Services personnel. The Foundation has completed a Visitor Center adjacent to the Memorial. Among the Visitor Center attractions are a Log Room, Ship’s Store, Theater, and National Chief’s Mess. The Foundation occupies office space adjacent to the Visitor Center.

Basis of Accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) promulgated by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) (the “Guidance”).

Use of Estimates – The accompanying financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. Management has concluded that the Foundation has maintained its tax-exempt status and that there are no significant uncertain tax positions as of December 31, 2020 and 2019.

Cash and Cash Equivalents – The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The Federal Deposit Insurance Corporation (“FDIC”) insures amounts on deposit with each financial institution up to limits as prescribed by law. The Foundation may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents. As of December 31, 2020 and 2019, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$77,041 and \$31,811, respectively.

Investments and Fair Value Measurements – Investments are recorded at fair value, with gains and losses (realized and unrealized) included in the statements of activities. The gains or losses on sales of investments are determined using the cost of the specifically identified security.

In accordance with U.S. GAAP, the Foundation prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

The levels of the hierarchy are as follows:

Level 1 – Inputs in the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the entire period, for the assets or liabilities and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Foundation recognizes transfers between levels at the end of the reporting period in which circumstances occur causing changes in the availability of inputs to the fair value technique.

Risks and Uncertainties – The Foundation invests in various investment securities. Investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Accounts Receivable – Accounts receivable consist primarily of amounts due from special program projects and events, the Navy ceremony, sales and services of auxiliary enterprises, and the Visitor Center activities. Accounts receivable are stated at their net realizable value. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed the receivable is written off against the allowance. An allowance of \$15,000 and \$-0- was recorded as of December 31, 2020 and 2019, respectively.

Promises to Give – Unconditional promises to give are recorded as contributions in the period the promise is made. Promises to give that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Promises to give expected to be collected beyond one year are reported net of any estimated uncollectible amounts and are discounted to present value using a risk adjusted rate according to their corresponding terms. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the allowance for doubtful accounts. An allowance was not deemed necessary as of December 31, 2020 and 2019.

Inventory – Inventory held by the Foundation consists of statues and books. Inventory is stated, at the lower of cost or market, net of an allowance for obsolete inventory of \$3,102 for the years ended December 31, 2020 and 2019.

Property and Equipment – Property, furniture, equipment, and leasehold improvements are recorded at cost, or if donated, such assets are capitalized at the estimated fair market value at the date of receipt, less accumulated depreciation. It is the Foundation's policy to capitalize fixed assets with an original cost greater than \$2,500. Depreciation expense is computed using the straight-line method over the estimated life of three to fifteen years. Leasehold improvements are amortized over the lesser of the remaining office lease term or the estimated useful life of the improvements. Related amortization of leasehold improvements has been included with depreciation expense. Expenditures for maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, with any gain or loss included in operations. Also included with property and equipment are collections held by the Foundation.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

Collections – The Foundation has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession date. The collections are reported on the statements of financial position within property and equipment and related gains and losses on the deaccession of collection items are classified on the statements of activities as without donor restrictions or with donor restrictions support depending on donor restrictions, if any, placed on the items at the time of accession.

Trademarks – The Foundation's trademarks are amortized on a straight-line basis over 40 years. Amortization expense for the years ended December 31, 2020 and 2019, was \$794 and \$793, respectively, and has been included with depreciation expense.

The Foundation presents information regarding its financial position and activities according to two classes of net assets described as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors. The Foundation has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:

Invested in Property and Equipment – Represents net assets invested in property and equipment, net of accumulated depreciation.

Board-Designated – Represents resources set aside by the Board of Directors to be used for specific activities within guidelines established by the Foundation.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and designated for specific activities.

Net Assets With Donor Restrictions – The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the statements of activities as net assets released from restrictions. With donor restrictions net assets whose restrictions expire in the same year of receipt are classified as without donor restrictions revenues in the statements of activities. Additionally, with donor restrictions net assets consist of assets whose use by the Foundation is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. The restrictions stipulate that resources be maintained permanently, but permit the Foundation to expend the income generated in accordance with the provisions of the agreement.

Revenue Recognition – The Foundation recognizes revenue for direct mail contributions, private gifts and grants in accordance with FASB ASC Topic 958, *Revenue Recognition for Not-For-Profit Entities*, and Accounting Standard Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The Foundation recognizes revenue for all other revenue streams, excluding investment earnings, in accordance with FASB ASC 606, *Revenue from Contracts with Customers*.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

Memorial contributions, private gifts and grants are recognized at the point in time an unconditional promise to give is received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. As of December 31, 2020, and 2019, there were conditional contributions.

Charitable gift annuity contributions are recorded net of the present value of the liability of the future annuity payments and included in other income. The rate used to calculate the net present value is the adjusted discount rate for the month in which the gift is made. The value of the liability is adjusted to reflect amortization of the discount, payments to the donor, and changes in actuarial assumptions.

Special projects and events, the Navy ceremony and Visitor Center revenues represent sponsorships and events which are recognized at a point in time once the event or program is held. Amounts received in advance of the related event are deferred until the event takes place. Facility rentals are recognized when the performance obligation of providing space for the event is satisfied.

Funds received for the Affinity program are recognized over the life of the contract as the donor receives benefit throughout the contract period. Amounts received in advance are deferred until earned.

Revenues derived from store sales are recognized as the goods are delivered to the buyer.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Occupancy	Square footage
Depreciation	Program
Professional services	Full time equivalent

Advertising Expenses – The Foundation uses advertising to communicate its message and inform the general public on various public policy issues. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2020 and 2019, was \$12,142 and \$15,263, respectively.

Joint Cost Allocation – In 2020 and 2019, the Foundation incurred joint costs of \$727,530 and \$913,865, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$500,158 and \$706,734, respectively, were allocated to fundraising expense, \$706 and \$909, respectively, were allocated to general and administrative, and \$226,666 and \$206,222, respectively, to program services.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

New Pronouncement – In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains consistent with U.S. GAAP. This ASU is effective for fiscal years beginning January 1, 2022. The Foundation is currently evaluating the effect the ASU will have on the financial statements.

Note 2—Description of program services and supporting services

The following program and supporting services are included in the accompanying statements of activities.

Visitor Center Services – Visitor center services honors, recognizes, preserves, and celebrates America’s enduring maritime heritage through commemorative ceremonies, reunion meetings, reenlistment and retirement ceremonies, film and video presentations, band concerts, photographic and data collections, special events, and exhibits.

Special Events – These events promote awareness of the Foundation and its purpose to the general public through ceremonies, exchange programs, seminars, and lectures.

Educational Services – Educational services educates and informs the public about the heritage of the United States as a maritime nation and the contributions of men and women in the naval services through exhibits, film and video presentations, lectures, tours, publications, and events.

Expenses of Auxiliary Enterprises – Sales of memorabilia to further educate the public regarding the role of the Navy and the contributions of those who have served the United States in the Navy, Marine Corps, Coast Guard, or Merchant Marine.

Fundraising – Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, other assets, or time. They include publicizing and conducting fundraising campaigns; maintaining donor mailing lists; and conducting fundraising events.

General and Administrative – General and administrative activities are those that are not identified with a single program but that are indispensable to the conduct of the Foundation’s operations and programs. They include oversight, business management, record keeping, budgeting, and finance.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 3—Liquidity and availability

The table below represents financial assets available for general expenditures within one year at December 31:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 404,749	\$ 340,035
Investments	1,304,101	1,161,715
Accounts receivable, net	163,261	108,583
Other receivable	-	49,000
Promises to give	28,100	66,433
Total financial assets	<u>1,900,211</u>	<u>1,725,766</u>
Less amounts not available to be used for general expenditures within one year:		
Donor-restricted with purpose restriction	341,603	579,233
Board-designated liquidity reserve	475,000	375,000
Endowments	192,887	192,657
Total amount not available to be used for general expenditures within one year	<u>1,009,490</u>	<u>1,146,890</u>
Financial assets available to meet general expenditures within one year	<u>\$ 890,721</u>	<u>\$ 578,876</u>

The Foundation has a goal to maintain cash and short-term investment balances on hand to meet 60 days of ordinary business expenses (exclusive of depreciation), which are on average \$375,000. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, the Foundation maintains \$50,000 cash reserve and 41% of its portfolio in certificates of deposit, short-term treasury instruments, and other fixed-income investments. In addition, the Foundation's Board of Directors has set aside \$475,000 and \$375,000 as a liquidity reserve for the years ended December 31, 2020 and 2019, respectively. The Board has included as part of its liquidity reserve, a \$65,000 reserve for Capital Improvements and a \$135,000 reserve for Capital Maintenance, for both years ended December 31, 2020 and 2019.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 4—Investments and fair value measurements

The Foundation's investments as of December 31 consisted of the following:

Investments at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,011,793	\$ -	\$ -	\$ 1,011,793
Equity securities	46,838	-	-	46,838
Certificates of deposits	145,258	-	-	145,258
Cash and cash equivalents held within investment accounts	100,212	-	-	100,212
Total investments at fair value	<u>\$ 1,304,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,304,101</u>

Investments at Fair Value as of December 31, 2019				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 873,116	\$ -	\$ -	\$ 873,116
Equity securities	45,753	-	-	45,753
Certificates of deposits	163,991	-	-	163,991
Cash and cash equivalents held within investment accounts	78,855	-	-	78,855
Total investments at fair value	<u>\$ 1,161,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,715</u>

There were no transfers between levels of the fair value hierarchy in 2020 and 2019.

The Foundation's total earnings on investments for the years ended December 31 is comprised of the following:

	2020	2019
Interest and dividends	\$ 40,018	\$ 30,368
Realized and unrealized gains	88,523	138,496
Advisory and other fees	(817)	(817)
Total investment earnings	<u>\$ 127,724</u>	<u>\$ 168,047</u>

Note 5—Promises to give

Promises to give consisted of the following at December 31:

	2020	2019
Amounts due in:		
Less than one year	\$ 5,000	\$ 39,233
One to five years	23,100	27,200
Total promises to give	<u>\$ 28,100</u>	<u>\$ 66,433</u>

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 6—Property and equipment

Property and equipment of the Foundation consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 6,774,789	\$ 6,623,329
Equipment	2,528,133	2,467,317
Furniture and fixtures	2,182,140	2,182,140
Website	<u>200,450</u>	<u>200,450</u>
Total fixed assets	11,685,512	11,473,236
Less accumulated depreciation	<u>(10,756,027)</u>	<u>(10,560,216)</u>
	<u>\$ 929,485</u>	<u>\$ 913,020</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2020 and 2019. Depreciation expense for the years ended December 31, 2020 and 2019, was \$195,811 and \$215,114, respectively.

Note 7—Charitable gift annuities

As of December 31, 2020 and 2019, the Foundation has received cumulative total cash contributions of \$1,698,273, in the form of charitable gift annuities. The liability under the agreements is recorded at the net present value of the estimated income owed to the donors based upon the donors' life expectancy.

The discount is computed using the risk-adjusted rates, ranging from 1.0% to 6.0%. The agreements stipulate that the donors are to receive periodic payments for the remainder of their lives. Any income not distributed will revert to the Foundation at the termination of the agreements.

These annuities are classified as Level 3 liabilities within the U.S. GAAP fair value hierarchy as their fair values are derived from inputs to the valuation methodology that are unobservable for the asset and are based on actuarial assumptions such as mortality rates and the applicable federal rate for charitable gifts. These assumptions are significant to the fair value measurement.

Anticipated maturities of the obligations under the agreement are as follows:

2021	\$ 48,366
2022	48,366
2023	47,774
2024	44,590
2025	41,740
Thereafter	<u>32,838</u>
	<u>\$ 263,674</u>

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 7—Charitable gift annuities (continued)

A reconciliation of charitable gift annuities measured at fair value with the use of significant unobservable inputs (Level 3) for the years ended December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 296,111	\$ 323,733
Charitable gift annuities received	-	100,000
Change in fair value of annuity payable	17,569	37,242
Premium, net of interest	-	(48,991)
Disbursements and maturities	(50,006)	(115,873)
Balance at December 31	<u>\$ 263,674</u>	<u>\$ 296,111</u>

Note 8—Net assets with donor restrictions

Net assets with donor restrictions at December 31 have been restricted by the donors for the following purpose restrictions:

	<u>2020</u>	<u>2019</u>
Subject to purpose restriction:		
Capital campaign pledges	\$ 14,033	\$ 226,348
Back area build out	171,015	171,015
Youth programs	96,784	122,137
Galan Freise Scholarship	59,771	59,733
Total subject to purpose restriction	<u>341,603</u>	<u>579,233</u>
Endowments:		
Subject to appropriation and expenditure:		
Restricted by donor for outreach program	<u>2,053</u>	<u>1,823</u>
Subtotal	2,053	1,823
Held in perpetuity subject to endowment spending policy and appropriation:		
V-12 program endowment	153,447	153,447
Zumwalt lecture series endowment	28,922	28,922
Outreach program endowment	8,465	8,465
Total endowments	<u>192,887</u>	<u>192,657</u>
Total net assets with donor restrictions	<u>\$ 534,490</u>	<u>\$ 771,890</u>

Net assets with donor restrictions for the years ended December 31, 2020 and 2019, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors \$243,129 and \$120,546, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 9—Endowment funds

The Foundation's endowment funds were established for the purpose of securing the Foundation's long-term financial viability and continuing to meet the needs of the Foundation, which consisted of three funds as of December 31, 2020 and 2019:

V-12 Program – The V-12 Navy College Training Program was initiated in 1943 to meet both the immediate and long-range needs for commissioned officers to man ships, fly planes, and command troops called to duty in World War II.

Zumwalt Lecture Series – The Zumwalt Lecture Series was established to provide funding for a series of naval leadership lectures.

Outreach Programs – Support was provided to the Foundation to assist with educating and providing outreach to the youth and general public.

Interpretation of Relevant Law – As required by U.S. GAAP, net assets associated with these funds are classified and reported based on the existence or absence of donor-imposed restrictions. The amounts classified as with donor restrictions net assets represent the Foundation's endowment. The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Investment Policy – The Foundation commingled net assets with donor restrictions in investments portfolios with net assets without donor restrictions. The Foundation allocated realized and unrealized gains and losses to the endowment funds based on the endowment funds cost basis percentage of the investment portfolio and revenue earned is reported as with donor restrictions. Management decides, based on what the assets were restricted for, the disposition of the restricted revenue in accordance with the donors' stipulations. The Foundation's endowment policy is focused on the preservation of capital and amounts are invested in 55% equities and 45% fixed income securities.

Spending Policy – The Foundation has a policy for appropriating for distribution a certain percentage of its endowment fund's average fair value over time. In establishing this policy, the Foundation considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation's current spending policy allows its endowment funds to grow over time, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Funds with Deficiencies – 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 U.S. GAAP, deficiencies of this nature are required to be reported in net assets with donor restrictions. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new with donor restrictions contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. As of December 31, 2020 and 2019, there were no funds with deficiencies.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 9—Endowment funds (continued)

Changes in endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

	With Donor Restrictions
Endowment Net assets, December 31, 2018	\$ 196,220
Investment income	4,934
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>(8,497)</u>
Endowment Net assets, December 31, 2019	192,657
Investment income	5,729
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>(5,499)</u>
Endowment Net assets, December 31, 2020	<u><u>\$ 192,887</u></u>

Note 10—Related party transactions

The Foundation received significant contributions from certain Board members in support of various programs and operations. Related party contributions were \$109,395 and \$355,354 for the years ended December 31, 2020 and 2019, respectively. Related party receivable balances amounted to \$27,200 and \$35,700 for the years ended December 31, 2020 and 2019, respectively, and are included in accounts receivable and promises to give on the statements of financial position.

Note 11—Non-cash transactions

The Foundation records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses.

The Foundation received contributed professional services during the years ended December 31, 2020 and 2019, with a fair value on the date of donation of \$-0- and \$10,000, respectively.

The Foundation received contributed tangible assets for a silent auction in the amount of \$-0- and \$33,863 for the years ended December 31, 2020 and 2019, respectively.

Note 12—Employee retirement plan

The Foundation maintains an employee contribution retirement plan which operates under Internal Revenue Code Section 403(b). All employees are eligible to participate at the date of employment. For the years ended December 31, 2020 and 2019, the Foundation contributed \$17,796 and \$28,864, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 13—Risks and uncertainties

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. It is anticipated that these impacts will continue for some time. The Foundation’s museum is closed to visitors and several events have been cancelled. Future potential impacts may include disruptions or restrictions on the ability for events to take place at the museum. Changes to operating environment may increase operating costs. The future effects of these issues are unknown.

Note 14—Commitments and contingencies

Operating Lease – In 2009, the Foundation renegotiated their lease for the Visitor Center and office space under an operating lease. The renegotiated terms commenced on July 1, 2015 and expire with the termination of the lease in June 2025. The lease provides for base annual rental payments adjusted for annual increases of 1% on a compound and cumulative basis. Rental expense (including real estate taxes of \$302,344 and \$300,890, respectively), totaled \$795,972 and \$902,138 for the years ended December 31, 2020 and 2019, respectively.

During 2020, due to the COVID-19 pandemic the Foundation received a rent abatement of \$100,000, with no other changes to rights or obligations, which resulted in reduced rent payments for June through December of 2020. The abatement was recorded as a reduction to rent expense in 2020, consistent with the guidance issued by the FASB in April 2020 regarding lease concessions received due to the effects of COVID-19.

Future commitments under this lease are as follows:

2021	\$ 614,220
2022	618,948
2023	625,138
2024	631,389
2025	317,265
	<u>\$ 2,806,960</u>

The Foundation is involved in litigation arising from the normal course of business. Accruals are recorded when the outcome is probable and can be reasonably estimated in accordance with applicable accounting requirements regarding accounting for contingencies. While the ultimate results of claims and litigation cannot be predicted with certainty, management expects that the ultimate resolution of all pending or threatened claims and litigations as of December 31, 2020 will not have a material effect on the results of operations, financial position or cash flows.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 15—Paycheck Protection Program loan

The Foundation received a loan under the Paycheck Protection Program ("PPP loan") for an amount of \$232,200, which was established under the congressional approved Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The application for the PPP loan requires the Foundation to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operation of the Foundation. This certification further requires the Foundation to take into account their current business activity and their ability to access other sources of liquidity sufficient to support the ongoing operations in a manner that is not significantly detrimental to the business. The receipt of the funds from the PPP loans and the forgiveness of the PPP loans is dependent on the Foundation having initially qualified for the PPP loans and qualifying for the forgiveness of such PPP loans based on funds being used for certain expenditures such as payroll costs and rent, as required by the terms of the PPP loans. There is no assurance that the Foundation's obligation under the PPP loans will be forgiven. If the PPP loans are not forgiven, the Foundation will need to repay the PPP loans over the applicable repayment period, commencing after the applicable deferral period. The Foundation accounted for the PPP loan under ASC 470, *Debt*, in which the loan was recorded when the funds were received. The Foundation will recognize as debt extinguishment upon receipt of notification of forgiveness from the SBA. On February 24, 2021, the SBA granted full forgiveness of this loan.

Note 16—Subsequent events

The Foundation has performed an evaluation of subsequent events through May 5, 2021, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

The PPP loan was forgiven in full by the SBA on February 24, 2021. Additionally, the Foundation applied for the second round of PPP funds on January 1, 2021 and received \$94,112.