



**UNITED STATES NAVY MEMORIAL
FOUNDATION**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

*As of and for the Years Ended December 31, 2017
and 2016*

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 which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities 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, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 16 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. The information has been subjected to the auditing procedures applied in the audits 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Cheng Sakant LLP".

Bethesda, Maryland
June 1, 2018

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 862,484	\$ 922,074
Investments	758,088	888,220
Accounts receivable, net	76,812	90,521
Promises to give	142,492	419,992
Prepaid expenses	137,030	149,284
Inventory, net	111,313	113,654
Property and equipment, net	987,289	722,768
Trademark, net	9,325	10,118
Total Assets	<u>\$ 3,084,833</u>	<u>\$ 3,316,631</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 336,914	\$ 344,126
Annuities payable	197,449	253,202
Deferred revenue	232,317	491,723
Deferred rent	174,140	171,966
Total Liabilities	<u>940,820</u>	<u>1,261,017</u>
Net Assets:		
Unrestricted net assets	966,547	433,541
Temporarily restricted net assets	986,631	1,431,238
Permanently restricted net assets	190,835	190,835
Total Net Assets	<u>2,144,013</u>	<u>2,055,614</u>
Total Liabilities and Net Assets	<u>\$ 3,084,833</u>	<u>\$ 3,316,631</u>

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

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Change in unrestricted net assets:		
Revenue:		
Direct mail contributions	\$ 2,904,302	\$ 2,658,589
Special projects and events	1,195,660	1,257,049
Private gifts and grants	701,564	544,856
Navy ceremony	214,690	236,804
Heritage Center	386,746	304,977
Affinity program	111,902	119,442
Auxiliary activity - store sales	223,477	166,225
Other income	22,145	14,924
Investment earnings	90,801	70,688
	<u>5,851,287</u>	<u>5,373,554</u>
Net assets released from restrictions	<u>463,645</u>	<u>817,169</u>
Total Revenue	<u>6,314,932</u>	<u>6,190,723</u>
Expenses:		
Program services:		
Navy heritage services	1,968,645	1,712,950
Special events	662,516	524,616
Educational services	314,544	310,174
Expenses of auxiliary enterprises	331,832	316,480
Memorial log	68,423	68,145
Total Program Services	<u>3,345,960</u>	<u>2,932,365</u>
Supporting services:		
Fundraising	1,858,803	1,817,179
General and administrative	577,163	867,439
Total Supporting Services	<u>2,435,966</u>	<u>2,684,618</u>
Total Expenses	<u>5,781,926</u>	<u>5,616,983</u>
Change in unrestricted net assets	<u>533,006</u>	<u>573,740</u>
Change in temporarily restricted net assets:		
Contributions	19,038	48,232
Net assets released from restrictions	<u>(463,645)</u>	<u>(817,169)</u>
Change in temporarily restricted net assets	<u>(444,607)</u>	<u>(768,937)</u>
Net change in net assets	88,399	(195,197)
Net assets, beginning of year	<u>2,055,614</u>	<u>2,250,811</u>
Net assets, end of year	<u>\$ 2,144,013</u>	<u>\$ 2,055,614</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net change in net assets	\$ 88,399	\$ (195,197)
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation and amortization	169,488	154,209
Bad debt expense	24,465	-
Deferred rent	2,174	7,656
Annuity obligations	1,764	8,378
Realized and unrealized gains on investments	(65,446)	(33,371)
Changes in operating assets and liabilities:		
Accounts receivable	(2,007)	24,954
Promises to give	271,840	32,092
Prepaid expenses	12,254	28,418
Inventory	(748)	10,181
Accounts payable and accrued expenses	(7,212)	97,561
Deferred revenue	(259,406)	327,103
Net cash flows provided by operating activities	<u>235,565</u>	<u>461,984</u>
Cash flows from investing activities:		
Proceeds from sales of investments	269,067	424,221
Purchases of investments	(73,489)	(226,529)
Purchases of property and equipment	(433,216)	(156,044)
Net cash flows (used in) provided by investing activities	<u>(237,638)</u>	<u>41,648</u>
Cash flows from financing activities:		
Receipt of charitable gift annuities	5,000	-
Repayments on line of credit	-	(291,400)
Payments of annuity obligations	(62,517)	(83,927)
Net cash flows used in financing activities	<u>(57,517)</u>	<u>(375,327)</u>
Net change in cash and cash equivalents	(59,590)	128,305
Cash and cash equivalents, beginning of year	922,074	793,769
Cash and cash equivalents, end of year	<u>\$ 862,484</u>	<u>\$ 922,074</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 55,816</u>	<u>\$ 42,514</u>
Interest paid	<u>\$ -</u>	<u>\$ 6,763</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, 2017 AND 2016

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 Heritage Center adjacent to the Memorial. Among the Heritage Center attractions are a Log Room, Ship’s Store, Theater, and Presidents Room. The Foundation occupies office space adjacent to the Heritage Center.

Basis of Accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (the “Guidance”). Accordingly, revenue is recognized when earned and expenses when an obligation is incurred.

Use of Estimates – The accompanying financial statements have been prepared in conformity with 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, 2017.

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, 2017, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$373,757 (\$628,424 as of December 31, 2016).

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 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).

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.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

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 Heritage 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. The allowance recorded as of December 31, 2017 and 2016 was \$16,140 and \$6,329, 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. There was no allowance recorded as of December 31, 2017 and 2016. Management believes that all promises to give are collectible based on their assessment at this time.

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 \$3,089 and \$0 for the years ended December 31, 2017 and 2016, respectively.

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.

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 unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the items at the time of accession.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

Trademarks – The Foundation’s trademarks are amortized on a straight-line basis over 40 years. Amortization expense for the years ended December 31, 2017 and 2016 was \$792 each year and has been included with depreciation expense.

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

Unrestricted Net Assets – Unrestricted net assets are available for use in general operations.

Temporarily Restricted Net Assets – 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets whose restrictions expire in the same year of receipt are classified as unrestricted revenues in the statements of activities.

Permanently Restricted Net Assets – Permanently restricted 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 – Memorial contributions, private gifts and grants, are recognized in the period 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 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 are not included as contribution revenue until the conditions are substantially met.

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 Heritage Center revenues represent sponsorships and events which are recognized in the period the event or program is held. Amounts received in advance of the related event are deferred until the event takes place.

Funds received for the Affinity program are recognized over the life of the program. Amounts received in advance are deferred until earned.

Store sales represent sales of memorabilia and are recognized as revenue at the point of sale.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

Functional Allocation of Expenses – The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2017 and 2016 was \$100,490 and \$21,371, respectively.

Joint Cost Allocation – In 2017 and 2016, the Foundation incurred joint costs of \$1,056,960 and \$1,151,239, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$1,019,259 and \$1,100,520, respectively, were allocated to fundraising expense, \$7,363 and \$6,397, respectively, were allocated to management and general, and \$30,338 and \$44,322, respectively, to program services.

Subsequent Events – The Foundation has performed an evaluation of subsequent events through June 1, 2018, 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.

New Accounting Pronouncements – In August of 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard is effective for all fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of this standard on the Foundation’s financial statements.

In May 2014, the FASB issued ASU 2014-09. The amendments in this update create (Topic 606): *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in (Topic 605): *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of the ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The amendments in this update will be effective for the Foundation’s fiscal year 2019 with early adoption permitted in certain circumstances. Management is currently evaluating the impact of this standard on the Foundation’s 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.

Naval Heritage Services – Naval heritage services honors, 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.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 2—Description of program services and supporting services (continued)

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 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.

Memorial Log – The Memorial Log honors the service of men and women who have served in the United States Navy, Marine Corps, Coast Guard, or Merchant Marine through the maintenance of a permanent register recording service information and service members' photographs.

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.

Note 3—Investments and fair value measurements

The Foundation's investments as of December 31, 2017 and 2016 consisted of the following, which were deemed to be Level 1 securities within the GAAP fair value hierarchy:

<u>Class of Security</u>	<u>2017</u>	<u>2016</u>
Equity securities	\$ 49,951	\$ 51,339
Mutual Funds:		
Large growth	29,345	58,261
Large value	69,382	65,336
Large blend	191,190	170,508
Medium blend	-	52,226
Medium growth	9,552	15,789
Long-term bond	68,438	65,972
Intermediate term bond	106,924	210,470
Inflation protected bond	104,435	119,990
Other	73,026	70,841
Total Mutual Funds	<u>652,292</u>	<u>829,393</u>
Total Investments	702,243	880,732
Cash and cash equivalents held within investment accounts	55,845	7,488
Total	<u>\$ 758,088</u>	<u>\$ 888,220</u>

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 3—Investments and fair value measurements (continued)

There were no transfers between levels of the fair value hierarchy in 2017 and 2016.

The Foundation's total earnings on investments for the years ended December 31, 2017 and 2016 is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 25,355	\$ 37,317
Realized and unrealized gains	65,446	33,371
Total investment earnings	<u>\$ 90,801</u>	<u>\$ 70,688</u>

Note 4—Promises to give

Promises to give consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 142,492	\$ 399,992
One to five years	-	20,000
Total promises to give	<u>\$ 142,492</u>	<u>\$ 419,992</u>

Note 5—Property and equipment

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

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 6,568,035	\$ 6,228,041
Equipment	2,453,318	2,431,085
Furniture and fixtures	1,910,289	1,839,299
Website	200,450	200,450
Total fixed assets	11,132,092	10,698,875
Less accumulated depreciation and amortization	<u>(10,144,803)</u>	<u>(9,976,107)</u>
	<u>\$ 987,289</u>	<u>\$ 722,768</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2017 and 2016. Depreciation expense for the years ended December 31, 2017 and 2016 was \$168,696 and \$153,416, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 6—Charitable gift annuities

As of December 31, 2017 and 2016, the Foundation has received cumulative total cash contributions of \$1,598,273 and \$1,593,273, respectively, for both years 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 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:

2018	\$	42,013
2019		31,596
2020		21,339
2021		19,272
2022		19,101
Thereafter		64,128
Total	\$	<u>197,449</u>

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 253,202	\$ 328,751
Charitable gift annuities received	5,000	-
Discount, net of interest	1,764	8,378
Disbursements and maturities	(62,517)	(83,927)
Balance at December 31	<u>\$ 197,449</u>	<u>\$ 253,202</u>

Note 7—Line of credit

On December 17, 2013, the Foundation entered into a line of credit agreement with another financial institution. The maximum credit allowed was \$1,000,000 with an interest rate calculated as 30-day LIBOR plus 2.5%, and was renewed in January 2017 and closed in July 2017. The line of credit was secured by equipment, inventory, and receivables. The interest rate was 3.19% at December 31, 2016. The outstanding balance on the line of credit was \$0 as of December 31, 2016. The interest expense for this credit agreement was \$6,763 for the year ended December 31, 2016.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 8—Temporarily and permanently restricted net assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Capital campaign pledges	\$ 597,877	\$ 1,025,068
Back area build out	171,015	171,015
Youth programs	153,784	153,784
Galan Freise Scholarship	59,734	59,634
Other	4,221	21,737
Total temporarily restricted net assets	<u>\$ 986,631</u>	<u>\$ 1,431,238</u>

Permanently Restricted Net Assets

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, 2017 and 2016:

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 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 permanently restricted 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. As a result of this interpretation, the Foundation classifies all permanently restricted net assets as the original value of gifts donated to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

Investment Policy – The Foundation commingled permanently restricted assets in investments portfolios with unrestricted assets. 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 temporarily restricted. Management decides, based on what the assets were permanently restricted for, the disposition of the temporarily 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 50% equities and 50% fixed income securities.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 8—Temporarily and permanently restricted net assets (continued)

Spending Policy – The Foundation is developing a policy of appropriating for distribution a certain percentage of its endowment fund’s average fair value over time. In establishing this policy, the Foundation will consider 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 expects the current spending policy to allow 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 GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. As of December 31, 2017 and 2016, there were no funds with deficiencies.

Permanently restricted net assets consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
V-12 program	\$ 153,448	\$ 153,448
Zumwalt lecture series	28,922	28,922
Communications / outreach	8,465	8,465
Total endowment	<u>\$ 190,835</u>	<u>\$ 190,835</u>

The endowment activity for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, December 31, 2015	\$ 1,884	\$ 190,835	\$ 192,719
Investment income	15,187	-	15,187
Appropriation for expenditure	-	-	-
Net assets, December 31, 2016	<u>17,071</u>	<u>190,835</u>	<u>207,906</u>
Investment income	18,939	-	18,939
Appropriation for expenditure	<u>(34,126)</u>	<u>-</u>	<u>(34,126)</u>
Net assets, December 31, 2017	<u>\$ 1,884</u>	<u>\$ 190,835</u>	<u>\$ 192,719</u>

Note 9—Related party transactions

The Foundation received significant contributions from certain board members in support of various programs and operations. Related party contributions were approximately \$169,538 and \$61,592 for the years ended December 31, 2017 and 2016, respectively. Related party receivable balances amounted to \$126,449 and \$21,500 for the years ended December 31, 2017 and 2016, respectively, and are included in accounts receivable and promises to give on the statements of financial position.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Note 10—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, 2017 and 2016, there were no amounts contributed by the Foundation.

Note 11—Commitments

Operating Lease – In 2009, the Foundation renegotiated their lease for the Heritage 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 \$290,249 and \$256,391, respectively) totaled \$917,232 and \$838,593 for the years ended December 31, 2017 and 2016, respectively.

Future commitments under this lease are as follows:

2018	\$	619,414
2019		595,047
2020		595,876
2021		601,835
2022		607,853
Thereafter		<u>1,545,581</u>
Total	\$	<u><u>4,565,606</u></u>

SUPPLEMENTAL INFORMATION

UNITED STATES NAVY MEMORIAL FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Navy Heritage Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Memorial Log	Total Program Services	Fundraising	General and Administrative	Total
Personnel Costs	\$ 641,863	\$ 178,446	\$ 184,380	\$ 73,280	\$ 53,992	\$ 1,131,961	\$ 134,036	\$ 124,613	\$ 1,390,610
Occupancy Costs	786,662	-	11,658	115,265	9,739	923,324	13,555	67,171	1,004,050
Printing	5,816	7,993	594	-	845	15,248	461,775	5,625	482,648
Project Management Fees	-	100,534	-	-	-	100,534	260,067	107,502	468,103
Postage	551	521	192	13,499	327	15,090	326,223	1,738	343,051
Mail Shop	-	-	-	-	-	-	231,261	-	231,261
Event Production	6,720	117,604	-	-	-	124,324	68,400	-	192,724
Depreciation Expense	117,695	3,973	14,307	17,887	1,511	155,373	3,693	10,422	169,488
Food and Beverage	25,413	121,060	10,127	-	-	156,600	103	9,471	166,174
Database/Website Maintenance & Hosting	9,408	-	-	-	-	9,408	93,595	48,109	151,112
Legal/Other Professional Fees & Services	84,330	793	-	4,746	-	89,869	5,173	49,833	144,875
Building Maintenance/Equipment Rental/Custodial Service	111,869	137	-	-	-	112,006	-	12,634	124,640
Other Professional Services	8,677	-	-	-	-	8,677	108,195	-	116,872
Costs of Goods Sold	-	7,720	-	101,902	-	109,622	-	250	109,872
Marketing	36,037	3,747	884	50	-	40,718	59,772	-	100,490
Exhibits	-	1,335	75,768	-	-	77,103	-	-	77,103
Supplies	15,849	10,303	11,734	2,779	802	41,467	21,039	8,505	71,011
Bank & Credit Card Charges	-	1,202	-	-	-	1,202	-	58,640	59,842
UBIT	55,816	-	-	-	-	55,816	-	-	55,816
List Rental Expense	-	-	-	-	-	-	54,330	-	54,330
Video Production	18,750	22,610	-	-	-	41,360	-	-	41,360
CGA Interest & Payments	-	-	-	-	-	-	-	39,393	39,393
Silent Auction	-	39,383	-	-	-	39,383	-	-	39,383
Communications Cost	19,248	4,068	-	1,638	1,207	26,161	3,074	2,832	32,067
Travel & Transportation Expense	9,066	9,207	2,588	-	-	20,861	779	5,724	27,364
Venue Rental	-	26,500	-	-	-	26,500	-	-	26,500
Bad Debt Expense	-	-	-	-	-	-	7,500	16,965	24,465
Miscellaneous	5,654	5,130	2,312	786	-	13,882	1,648	3,802	19,332
Awards & Gifts	1,661	250	-	-	-	1,911	4,585	3,934	10,430
Events and Ceremonies	7,560	-	-	-	-	7,560	-	-	7,560
	<u>\$ 1,968,645</u>	<u>\$ 662,516</u>	<u>\$ 314,544</u>	<u>\$ 331,832</u>	<u>\$ 68,423</u>	<u>\$ 3,345,960</u>	<u>\$ 1,858,803</u>	<u>\$ 577,163</u>	<u>\$ 5,781,926</u>