



## UNITED STATES NAVY MEMORIAL

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

Dear Friend of the Navy Memorial,

Thank you very much for your interest in the Navy Memorial. We are pleased to present a summary of our operational highlights and financial results.

2018 was a year of significant accomplishment and progress. The number of visitors was up 8% compared to 2017, we gained more than 4,000 new members, hosted more than 300 events and dedicated the Lone Sailor Statue in Guam, the sixteenth one in the United States.

We installed 2 new exhibits: “The American Sailor: Agile, Capable, and Talented” tells the story of the Navy’s evolution, beginning with its birth in 1775, and narrates the everyday life of our Sailors. The second exhibit, “Zumwalt: The Current that Brought the Navy to the Shores of the 20th Century” follows the life and legacy of one of the Navy’s most prolific Chief of Naval Operations (CNO), Elmo R. Zumwalt Jr.

The National Chiefs Mess is taking off, fulfilling our commitment to our focus on honoring, recognizing and celebrating the Navy Chief! We are set to be the home of the Delbert D. Black Leadership Award that honors the top Command Master Chief in the Fleet and present the award at the first annual Delbert D. Black Leadership Award dinner.

In 2018, we infused the Navy Memorial with new, cutting-edge technology to provide a more engaging visitor experience. We now have four sets of virtual reality goggles that demonstrate what it’s like to be aboard an amphibious warship.

We focused on reaching out virtually as well. The Navy Log ended the year with 692,008 entries, we launched a brand new website and we focused on increasing our social media presence resulting in 39% increase in followers on Facebook.

We hosted our first “Bridge Wing Chat,” our new program to bring in Navy leadership and junior to mid-grade officers to discuss “strategic topics of interest today.” It was a resounding success and set us up well for a great series of Bridge Wing Chats for 2019.

Our live concerts featuring the Navy Band on Tuesday evenings were enjoyed by more than 7,000 people this year, and new program to show “Movies on the Memorial” on Thursday evenings was such a resounding success that we will repeat it in 2019.

Our Corporate Partnership Program gained momentum through the success of our events and programs. We gained five new corporate partners this year, and celebrated 38% growth in the program.

We ended the year, again, with a positive cash flow and a net surplus from our operations of \$15,226; however, we have elected to take a more conservative position with our future Charitable Gift Annuity (CGA) payment obligations, resulting in a net loss for the year of \$152,680.

In conclusion, we ended 2018 much stronger, both in impact as well as financially, than 2017. We could not have done this without our loyal supporters.

We hope to see you soon at the Navy Memorial, and thank you again for your interest. If you have any questions, please contact me or Scott Matirne, Director of Financial Services, at [SMatirne@NavyMemorial.org](mailto:SMatirne@NavyMemorial.org).

All the best,



Frank Thorp  
President & CEO  
United States Navy Memorial



**UNITED STATES NAVY MEMORIAL  
FOUNDATION**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2018 and 2017*

*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, 2018 and 2017, 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, 2018 and 2017, 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.

**Changes in Financial Statement Presentation**

As discussed in Note 1, the Foundation adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Cherry Bekant LLP

Tysons Corner, Virginia  
May 9, 2019

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 669,836	\$ 862,484
Investments	933,270	758,088
Accounts receivable, net	168,607	76,812
Promises to give, net	78,481	142,492
Prepaid expenses	164,393	137,030
Inventory, net	110,846	111,313
Property and equipment, net	1,047,731	987,289
Trademark, net	8,531	9,325
<b>Total Assets</b>	<u>\$ 3,181,695</u>	<u>\$ 3,084,833</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 454,961	\$ 336,914
Annuities payable	323,733	197,449
Deferred revenue	241,242	232,317
Deferred rent	170,426	174,140
<b>Total Liabilities</b>	<u>1,190,362</u>	<u>940,820</u>
Net Assets:		
Without donor restrictions:		
Invested in property and equipment	1,047,731	987,289
Board-designated	325,000	325,000
Undesignated	(268,900)	(345,742)
Total without donor restriction	<u>1,103,831</u>	<u>966,547</u>
With donor restrictions:		
Subject to purpose restriction	691,282	982,410
Endowments	196,220	195,056
Total with donor restriction	<u>887,502</u>	<u>1,177,466</u>
<b>Total Net Assets</b>	<u>1,991,333</u>	<u>2,144,013</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 3,181,695</u>	<u>\$ 3,084,833</u>

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restriction	Total	Without Donor Restrictions	With Donor Restriction	Total
<b>Revenue:</b>						
Direct mail contributions	\$ 2,678,444	\$ -	\$ 2,678,444	\$ 2,904,302	\$ -	\$ 2,904,302
Special projects and events	1,157,221	-	1,157,221	1,195,660	-	1,195,660
Private gifts and grants	1,279,386	-	1,279,386	701,564	-	701,564
Navy ceremony	132,108	-	132,108	214,690	-	214,690
Visitor center	426,933	-	426,933	386,746	-	386,746
Affinity program	111,913	-	111,913	111,902	-	111,902
Auxiliary activity - store sales	229,665	-	229,665	223,477	-	223,477
Other income	7,889	-	7,889	22,145	-	22,145
Investment earnings	(47,725)	6,163	(41,562)	90,801	19,038	109,839
	5,975,834	6,163	5,981,997	5,851,287	19,038	5,870,325
Net assets released from restrictions	296,127	(296,127)	-	463,645	(463,645)	-
<b>Total Revenue</b>	<b>6,271,961</b>	<b>(289,964)</b>	<b>5,981,997</b>	<b>6,314,932</b>	<b>(444,607)</b>	<b>5,870,325</b>
<b>Expenses:</b>						
<b>Program services:</b>						
Visitor center services	2,019,740	-	2,019,740	1,968,645	-	1,968,645
Special events	681,964	-	681,964	662,516	-	662,516
Educational services	436,147	-	436,147	314,544	-	314,544
Expenses of auxiliary enterprises	320,828	-	320,828	331,832	-	331,832
Memorial log	40,672	-	40,672	68,423	-	68,423
<b>Total Program Services</b>	<b>3,499,351</b>	<b>-</b>	<b>3,499,351</b>	<b>3,345,960</b>	<b>-</b>	<b>3,345,960</b>
<b>Supporting services:</b>						
Fundraising	2,009,363	-	2,009,363	1,858,803	-	1,858,803
General and administrative	625,963	-	625,963	577,163	-	577,163
<b>Total Supporting Services</b>	<b>2,635,326</b>	<b>-</b>	<b>2,635,326</b>	<b>2,435,966</b>	<b>-</b>	<b>2,435,966</b>
<b>Total Expenses</b>	<b>6,134,677</b>	<b>-</b>	<b>6,134,677</b>	<b>5,781,926</b>	<b>-</b>	<b>5,781,926</b>
Net change in net assets	137,284	(289,964)	(152,680)	533,006	(444,607)	88,399
Net assets, beginning of year	966,547	1,177,466	2,144,013	433,541	1,622,073	2,055,614
<b>Net assets, end of year</b>	<b>\$ 1,103,831</b>	<b>\$ 887,502</b>	<b>\$ 1,991,333</b>	<b>\$ 966,547</b>	<b>\$ 1,177,466</b>	<b>\$ 2,144,013</b>

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



**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services			
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Memorial Log	Total Program Services	Fundraising	General and Administrative	Total
Personnel costs	\$ 648,549	\$ 317,601	\$ 306,536	\$ 75,045	\$ 21,785	\$ 1,369,516	\$ 110,221	\$ 229,410	\$ 1,709,147
Occupancy costs	789,523	4,902	14,607	106,851	9,509	925,392	5,490	49,406	980,288
Printing	4,095	10,395	652	722	702	16,566	486,872	6,576	510,014
Project management fees	-	964	-	-	-	964	248,000	53,967	302,931
Postage	761	1,167	255	12,042	48	14,273	350,253	663	365,189
Mail shop	-	-	-	-	-	-	203,036	-	203,036
Event production	5,401	126,920	341	-	-	132,662	69,600	-	202,262
Depreciation and amortization expense	129,248	2,722	34,578	-	8,026	174,574	7,001	19,516	201,091
Food and beverage	39,695	128,820	4,522	-	-	173,037	-	2,945	175,982
Database/website maintenance and hosting	-	-	-	-	-	-	93,655	56,285	149,940
Legal/other professional fees and services	49,665	-	-	5,273	-	54,938	-	99,561	154,499
Building maintenance/equipment rental/custodial service	94,108	322	5,973	-	-	100,403	-	9,190	109,593
Other professional services	106,730	3,798	507	-	-	111,035	99,679	-	210,714
Costs of goods sold	4,400	7,763	-	107,703	-	119,866	-	-	119,866
Marketing	10,800	3,661	1,197	2,975	-	18,633	7,939	-	26,572
Exhibits	-	1,565	53,267	-	-	54,832	-	-	54,832
Supplies	28,148	3,061	2,034	4,056	203	37,502	19,005	14,868	71,375
Bank and credit card charges	4,210	739	-	2,578	55	7,582	3,352	54,850	65,784
UBIT	27,257	-	-	-	-	27,257	-	4,897	32,154
List rental expense	-	-	-	-	-	-	32,902	-	32,902
Video production	10,000	19,937	-	-	-	29,937	-	-	29,937
CGA interest and payments	-	-	-	-	-	-	208,539	-	208,539
Silent auction	-	-	-	-	-	-	57,775	-	57,775
Communications cost	10,891	4,953	4,604	1,182	344	21,974	1,746	3,165	26,885
Travel and transportation expense	28,820	6,489	1,606	-	-	36,915	33	-	36,948
Venue rental	-	32,000	-	-	-	32,000	-	-	32,000
Bad debt expense	8,617	-	-	-	-	8,617	-	15,000	23,617
Miscellaneous	8,395	3,846	3,030	2,401	-	17,672	4,265	5,664	27,601
Awards and gifts	8,153	339	2,186	-	-	10,678	-	-	10,678
Events and ceremonies	2,274	-	252	-	-	2,526	-	-	2,526
	<u>\$ 2,019,740</u>	<u>\$ 681,964</u>	<u>\$ 436,147</u>	<u>\$ 320,828</u>	<u>\$ 40,672</u>	<u>\$ 3,499,351</u>	<u>\$ 2,009,363</u>	<u>\$ 625,963</u>	<u>\$ 6,134,677</u>

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

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)**

YEAR ENDED DECEMBER 31, 2017

	Program Services					Supporting Services			Total
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Memorial Log	Total Program Services	Fundraising	General and Administrative	
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 and amortization 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/w ebsite maintenance and hosting	9,408	-	-	-	-	9,408	93,595	48,109	151,112
Legal/other professional fees and 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 and 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 and 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 and 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 and 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>

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Net change in net assets	\$ (152,680)	\$ 88,399
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation and amortization	201,091	169,488
Bad debt expense	23,617	24,465
Donated securities	(264,510)	-
Change in annuity payable	167,904	-
Discounts on annuity payables	6,340	1,764
Realized and unrealized gains on investments	77,627	(65,446)
Changes in operating assets and liabilities:		
Accounts receivable	(91,795)	(2,007)
Promises to give	40,394	271,840
Prepaid expenses	(27,363)	12,254
Inventory	467	(748)
Accounts payable and accrued expenses	118,047	(7,212)
Deferred revenue	8,925	(259,406)
Deferred rent	(3,714)	2,174
Net cash flows provided by operating activities	<u>104,350</u>	<u>235,565</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	337,374	269,067
Purchases of investments	(325,673)	(73,489)
Purchases of property and equipment	(260,739)	(433,216)
Net cash flows used in investing activities	<u>(249,038)</u>	<u>(237,638)</u>
<b>Cash flows from financing activities:</b>		
Receipt of charitable gift annuities	-	5,000
Payments of annuity obligations	(47,960)	(62,517)
Net cash flows used in financing activities	<u>(47,960)</u>	<u>(57,517)</u>
Net change in cash and cash equivalents	(192,648)	(59,590)
Cash and cash equivalents, beginning of year	862,484	922,074
Cash and cash equivalents, end of year	<u>\$ 669,836</u>	<u>\$ 862,484</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 32,154</u>	<u>\$ 55,816</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, 2018 AND 2017

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### 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 (“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, 2018 and 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, 2018 and 2017, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$379,632 and \$373,757, 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 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.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

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. The allowance recorded as of December 31, 2018 and 2017, was \$0 and \$16,140, 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. The allowance recorded as of December 31, 2018 and 2017, was \$31,511 and \$0, respectively.

*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 for the years ended December 31, 2018 and 2017.

*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 without donor restrictions or with donor restrictions 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, 2018 AND 2017

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### 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, 2018 and 2017, was \$794 and \$792, 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.

*With Donor Restrictions 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, 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* – 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.

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

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

Special projects and events, the Navy ceremony and Visitor 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.

*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, 2018 and 2017, was \$26,572 and \$100,490, respectively.

*Joint Cost Allocation* – In 2018 and 2017, the Foundation incurred joint costs of \$1,078,240 and \$1,056,960, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$1,040,161 and \$1,019,259, respectively, were allocated to fundraising expense, \$7,239 and \$7,363, respectively, were allocated to general and administrative, and \$30,840 and \$30,338, respectively, to program services.

*Subsequent Events* – The Foundation has performed an evaluation of subsequent events through May 9, 2019, 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.

*Adopted Pronouncements* – On August 18, 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*. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

*New Pronouncements* – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, for all non-SEC filers, including not-for-profit entities. The Foundation has not yet selected a transition method and is currently evaluating the effect the standard will have on the financial statements.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

In February 2016, the 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 after December 15, 2019. The Foundation is currently evaluating the effect the ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a more detailed framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides additional guidance to help determine whether a contribution is conditional, and better distinguish between a donor-imposed condition and a donor-imposed restriction. The ASU is effective for fiscal years beginning after December 15, 2018. The ASU requires the provisions to be applied on a modified prospective basis and early adoption is permitted. 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.

*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.

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 3—Liquidity and availability**

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

Financial assets at year-end:	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 669,836	\$ 862,484
Investments	933,270	758,088
Accounts receivable, net	168,607	76,812
Promises to give, net	78,481	142,492
Total financial assets	<u>1,850,194</u>	<u>1,839,876</u>
Less amounts not available to be used for general expenditures within one year:		
Donor-restricted with purpose restriction	691,282	982,410
Board-designated liquidity reserve	325,000	325,000
Endowments	<u>196,220</u>	<u>195,056</u>
Total amount not available to be used for general expenditures within one year	<u>1,212,502</u>	<u>1,502,466</u>
Financial assets available to meet general expenditures within one year	<u>\$ 637,692</u>	<u>\$ 337,410</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 \$325,000. 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 \$325,000 as a liquidity reserve.

**Note 4—Investments and fair value measurements**

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

	<b>Investments at Fair Value as of December 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 702,617	\$ -	\$ -	\$ 702,617
Equity securities	41,244	-	-	41,244
Certificates of deposits	139,185	-	-	139,185
Cash and cash equivalents held within investment accounts	50,224	-	-	50,224
Total investments at fair value	<u>\$ 933,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 933,270</u>
	<b>Investments at Fair Value as of December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 652,292	\$ -	\$ -	\$ 652,292
Equity securities	49,951	-	-	49,951
Cash and cash equivalents held within investment accounts	55,845	-	-	55,845
Total investments at fair value	<u>\$ 758,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 758,088</u>

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 4—Investments and fair value measurements (continued)**

There were no transfers between levels of the fair value hierarchy in 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 36,065	\$ 44,393
Realized and unrealized (losses) gains	(77,627)	65,446
Total investment earnings	<u>\$ (41,562)</u>	<u>\$ 109,839</u>

**Note 5—Promises to give**

Promises to give consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 71,281	\$ 142,492
One to five years	7,200	-
Total promises to give	<u>\$ 78,481</u>	<u>\$ 142,492</u>

**Note 6—Property and equipment**

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

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 6,586,615	\$ 6,568,035
Equipment	2,467,317	2,453,318
Furniture and fixtures	2,138,451	1,910,289
Website	200,450	200,450
Total fixed assets	11,392,833	11,132,092
Less accumulated depreciation and amortization	<u>(10,345,102)</u>	<u>(10,144,803)</u>
	<u>\$ 1,047,731</u>	<u>\$ 987,289</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2018 and 2017. Depreciation expense for the years ended December 31, 2018 and 2017, was \$200,297 and \$168,696, respectively.



**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 7—Charitable gift annuities**

As of December 31, 2018 and 2017, the Foundation has received cumulative total cash contributions of \$1,598,273 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:

2019	\$ 65,214
2020	65,695
2021	50,048
2022	40,955
2023	37,500
Thereafter	64,321
	<u>\$ 323,733</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 is as follows:

	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 197,449	\$ 253,202
Charitable gift annuities received	-	5,000
Change in annuity payable	167,904	-
Discount, net of interest	6,340	1,764
Disbursements and maturities	(47,960)	(62,517)
Balance at December 31	<u>\$ 323,733</u>	<u>\$ 197,449</u>

**Note 8—Line of credit**

On December 17, 2013, the Foundation entered into a line of credit agreement with a financial institution. The maximum credit allowed was \$1,000,000 with an interest rate calculated as 30-day LIBOR plus 2.5% and closed in January 2018. The line of credit was secured by equipment, inventory, and receivables.

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 9—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>2018</u>	<u>2017</u>
Subject to purpose restriction:		
Capital campaign pledges	\$ 306,749	\$ 597,977
Back area build out	171,015	171,015
Youth programs	153,784	153,784
Galan Freise Scholarship	59,734	59,634
Total subject to purpose restriction	<u>691,282</u>	<u>982,410</u>
Endowments:		
Subject to appropriation and expenditure:		
Restricted by donor for Zumwalt lecture series	3,797	2,841
Restricted by donor for outreach program	<u>1,625</u>	<u>1,380</u>
Subtotal	5,422	4,221
Held into perpetuity subject to endowment spending policy and appropriation:		
V-12 program endowment	153,411	153,448
Zumwalt lecture series endowment	28,922	28,922
Outreach program endowment	<u>8,465</u>	<u>8,465</u>
Total endowments	<u>196,220</u>	<u>195,056</u>
Total net assets with donor restrictions	<u>\$ 887,502</u>	<u>\$ 1,177,466</u>

Net assets with donor restrictions for the years ended December 31, 2018 and 2017, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors \$296,127 and \$463,645, respectively.

**Note 10—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, 2018 and 2017:

*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.

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 10—Endowment funds (continued)**

*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 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 50% equities and 50% 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 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, 2018 and 2017, there were no funds with deficiencies.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<b>With Donor Restrictions</b>
Endowment Net assets, December 31, 2016	\$ 212,332
Investment income	19,038
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(36,314)
Endowment Net assets, December 31, 2017	<u>195,056</u>
Investment income	6,163
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(4,999)
Endowment Net assets, December 31, 2018	<u><u>\$ 196,220</u></u>

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2018 AND 2017

**Note 11—Related party transactions**

The Foundation received significant contributions from certain board members in support of various programs and operations. Related party contributions were \$132,916 and \$169,538 for the years ended December 31, 2018 and 2017, respectively. Related party receivable balances amounted to \$123,804 and \$126,449 for the years ended December 31, 2018 and 2017, respectively, and are included in accounts receivable and promises to give on the statements of financial position.

**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, 2018 and 2017, the Foundation contributed \$8,079 and \$0, respectively.

**Note 13—Commitments**

*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 \$275,102 and \$290,249, respectively) totaled \$905,327 and \$917,232 for the years ended December 31, 2018 and 2017, respectively.

Future commitments under this lease are as follows:

	<b>With Donor Restrictions</b>
Endowment Net assets, December 31, 2016	\$ 212,332
Investment income	19,038
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(36,314)
Endowment Net assets, December 31, 2017	<u>195,056</u>
Investment income	6,163
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(4,999)
Endowment Net assets, December 31, 2018	<u><u>\$ 196,220</u></u>