

# **UNITED STATES NAVY MEMORIAL FOUNDATION**

## **FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2022 and 2021*

*And Report of Independent Auditor*

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**TABLE OF CONTENTS**

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**REPORT OF INDEPENDENT AUDITOR**..... 1-2

**FINANCIAL STATEMENTS**

Statements of Financial Position.....3  
Statements of Activities.....4  
Statements of Functional Expenses ..... 5-6  
Statements of Cash Flows .....7  
Notes to the Financial Statements ..... 8-19

## Report of Independent Auditor

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

### Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Change in Accounting Principle

As discussed in Notes 1 and 13 to the financial statements, the Foundation changed its method of accounting for leases as of January 1, 2022, due to the adoption of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, as amended.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

*Cherry Bekaert LLP*

Tysons Corner, Virginia  
June 23, 2023

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

DECEMBER 31, 2022 AND 2021

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 158,917	\$ 627,824
Investments	910,121	1,494,422
Accounts receivable, net	84,204	170,499
Prepaid expenses	84,208	125,174
Inventory, net	108,118	95,184
Right-of-use assets	904,593	-
Property and equipment, net	1,245,916	1,069,231
Trademark, net	5,358	6,151
Deposits	152,393	143,470
<b>Total Assets</b>	<b>\$ 3,653,828</b>	<b>\$ 3,731,955</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 430,407	\$ 299,180
Annuities payable	189,218	226,702
Deferred revenue	322,551	657,831
Deferred rent	-	123,353
Operating lease liability	1,127,646	-
<b>Total Liabilities</b>	<b>2,069,822</b>	<b>1,307,066</b>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	1,245,916	1,069,231
Board-designated	-	630,000
Undesignated	(146,341)	226,284
<b>Total Without Donor Restrictions</b>	<b>1,099,575</b>	<b>1,925,515</b>
With Donor Restrictions:		
Subject to purpose restriction	280,747	302,712
Endowments	203,684	196,662
<b>Total With Donor Restrictions</b>	<b>484,431</b>	<b>499,374</b>
<b>Total Net Assets</b>	<b>1,584,006</b>	<b>2,424,889</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,653,828</b>	<b>\$ 3,731,955</b>

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, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Direct mail contributions	\$ 2,252,142	\$ -	\$ 2,252,142	\$ 2,270,691	\$ -	\$ 2,270,691
Special projects and events	1,452,115	-	1,452,115	1,432,602	-	1,432,602
Private gifts and grants	652,853	-	652,853	1,108,379	-	1,108,379
Navy ceremony	185,422	-	185,422	112,613	-	112,613
Visitor center	266,101	-	266,101	111,312	-	111,312
Affinity program	100,100	-	100,100	125,239	-	125,239
Auxiliary activity - store sales	200,593	-	200,593	148,808	-	148,808
Other income	30,212	-	30,212	421,877	-	421,877
In-kind contributions	195,000	-	195,000	-	-	-
Investment return, net	(196,582)	7,022	(189,560)	181,039	3,775	184,814
	<u>5,137,956</u>	<u>7,022</u>	<u>5,144,978</u>	<u>5,912,560</u>	<u>3,775</u>	<u>5,916,335</u>
Net assets released from restrictions	21,965	(21,965)	-	38,891	(38,891)	-
Total Revenue	<u>5,159,921</u>	<u>(14,943)</u>	<u>5,144,978</u>	<u>5,951,451</u>	<u>(35,116)</u>	<u>5,916,335</u>
Expenses:						
Program Services:						
Visitor center services	2,318,125	-	2,318,125	1,848,028	-	1,848,028
Special events	1,338,676	-	1,338,676	957,763	-	957,763
Educational services	251,553	-	251,553	689,179	-	689,179
Expenses of auxiliary enterprises	341,263	-	341,263	272,295	-	272,295
Total Program Services	<u>4,249,617</u>	<u>-</u>	<u>4,249,617</u>	<u>3,767,265</u>	<u>-</u>	<u>3,767,265</u>
Supporting Services:						
Fundraising	1,203,926	-	1,203,926	917,840	-	917,840
General and administrative	532,318	-	532,318	581,703	-	581,703
Total Supporting Services	<u>1,736,244</u>	<u>-</u>	<u>1,736,244</u>	<u>1,499,543</u>	<u>-</u>	<u>1,499,543</u>
Total Expenses	<u>5,985,861</u>	<u>-</u>	<u>5,985,861</u>	<u>5,266,808</u>	<u>-</u>	<u>5,266,808</u>
Net change in net assets	(825,940)	(14,943)	(840,883)	684,643	(35,116)	649,527
Net assets, beginning of year	1,925,515	499,374	2,424,889	1,240,872	534,490	1,775,362
Net assets, end of year	<u>\$ 1,099,575</u>	<u>\$ 484,431</u>	<u>\$ 1,584,006</u>	<u>\$ 1,925,515</u>	<u>\$ 499,374</u>	<u>\$ 2,424,889</u>

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

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

YEAR ENDED DECEMBER 31, 2022

	Program Services				Supporting Services			Total
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Total Program Services	Fundraising	General and Administrative	
Personnel costs	\$ 320,688	\$ 518,995	\$ 175,843	\$ 100,860	\$ 1,116,386	\$ 367,417	\$ 255,055	\$ 1,738,858
Occupancy costs	866,804	21,282	14,050	128,129	1,030,265	42,465	45,946	1,118,676
Printing	334,759	5,022	-	-	339,781	83,411	269	423,461
Event production	14,101	387,419	125	315	401,960	-	28	401,988
Project management fees	-	55,580	788	-	56,368	306,837	4,803	368,008
Postage	244,631	1,171	50	12,417	258,269	58,150	347	316,766
Depreciation and amortization expense	139,950	20,272	46,085	-	206,307	-	22,758	229,065
Professional fees and services	16,971	13,514	7,861	233	38,579	117,081	63,862	219,522
Food and beverage	50,505	158,602	-	-	209,107	5,556	3,919	218,582
Mail shop	115,045	-	-	-	115,045	28,761	-	143,806
Costs of goods sold	49,253	9,378	-	83,820	142,451	-	-	142,451
Database and website maintenance and hosting	9,408	-	-	-	9,408	85,231	38,141	132,780
Video production	10,000	90,140	-	-	100,140	-	-	100,140
Building maintenance, equipment rental, and custodial service	69,343	-	1,850	-	71,193	-	8,809	80,002
Miscellaneous	17,754	-	-	3,644	21,398	1,759	46,675	69,832
Bank and credit card charges	13,248	503	-	7,968	21,719	19,373	19,915	61,007
Supplies	11,366	3,737	56	3,164	18,323	17,914	5,388	41,625
Venue rental	-	32,000	-	-	32,000	-	2,000	34,000
Travel and transportation expense	8,439	10,884	-	-	19,323	10,843	17	30,183
Marketing	7,781	4,254	693	713	13,441	3,390	10,985	27,816
Unrelated business income tax	-	-	-	-	-	27,529	-	27,529
List rental expense	-	-	-	-	-	23,018	-	23,018
Events and ceremonies	15,554	570	-	-	16,124	1,955	-	18,079
Communications cost	1,386	1,553	549	-	3,488	1,167	904	5,559
Awards and gifts	1,139	-	-	-	1,139	175	2,497	3,811
Bad debt expense	-	3,800	-	-	3,800	-	-	3,800
Exhibits	-	-	3,603	-	3,603	-	-	3,603
Silent auction	-	-	-	-	-	1,106	-	1,106
CGA interest, adjustments, and payments	-	-	-	-	-	788	-	788
	<u>\$ 2,318,125</u>	<u>\$ 1,338,676</u>	<u>\$ 251,553</u>	<u>\$ 341,263</u>	<u>\$ 4,249,617</u>	<u>\$ 1,203,926</u>	<u>\$ 532,318</u>	<u>\$ 5,985,861</u>

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

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

YEAR ENDED DECEMBER 31, 2021

	Program Services				Supporting Services			Total
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Total Program Services	Fundraising	General and Administrative	
Personnel costs	\$ 645,288	\$ 368,804	\$ 133,557	\$ 70,233	\$ 1,217,882	\$ 31,129	\$ 162,333	\$ 1,411,344
Occupancy costs	783,433	18,067	14,474	116,100	932,074	29,205	65,249	1,026,528
Project management fees	-	50,466	-	-	50,466	294,000	17,805	362,271
Postage	2,704	16,631	193,797	12,393	225,525	129,157	1,575	356,257
Printing	886	4,214	175,678	-	180,778	117,017	1,923	299,718
Event production	13,202	267,791	-	-	280,993	-	-	280,993
Professional fees and services	11,312	18,950	3,128	1,871	35,261	88,078	84,044	207,383
Depreciation and amortization expense	122,658	22,216	33,866	-	178,740	-	15,421	194,161
Mail shop	-	8,733	91,431	-	100,164	60,954	-	161,118
Database and website maintenance and hosting	9,127	-	2,269	-	11,396	93,955	52,577	157,928
Costs of goods sold	81,072	6,561	-	59,924	147,557	-	-	147,557
Miscellaneous	4,539	1,250	13,866	1,250	20,905	634	83,073	104,612
Building maintenance, equipment rental, and custodial service	78,544	3,681	4,557	-	86,782	-	7,662	94,444
Marketing	12,436	53,558	15,199	573	81,766	-	-	81,766
Supplies	37,718	3,484	2,798	3,450	47,450	12,154	15,822	75,426
Video production	-	59,500	-	-	59,500	-	-	59,500
Food and beverage	23,933	22,257	139	-	46,329	-	145	46,474
Bank and credit card charges	8,870	823	-	5,783	15,476	17,521	13,315	46,312
Unrelated business income tax	-	-	-	-	-	-	37,549	37,549
List rental expense	-	-	-	-	-	26,473	-	26,473
Awards and gifts	-	14,609	-	-	14,609	11,839	-	26,448
Travel and transportation expense	7,745	3,420	2,231	-	13,396	3,253	-	16,649
Silent auction	-	-	-	-	-	-	-	-
Communications cost	3,570	3,805	1,343	718	9,436	2,471	2,499	14,406
CGA interest, adjustments, and payments	-	-	-	-	-	-	11,361	11,361
Bad debt expense	-	-	-	-	-	-	9,350	9,350
Venue rental	-	8,300	-	-	8,300	-	-	8,300
Events and ceremonies	991	643	-	-	1,634	-	-	1,634
Exhibits	-	-	846	-	846	-	-	846
	<u>\$ 1,848,028</u>	<u>\$ 957,763</u>	<u>\$ 689,179</u>	<u>\$ 272,295</u>	<u>\$ 3,767,265</u>	<u>\$ 917,840</u>	<u>\$ 581,703</u>	<u>\$ 5,266,808</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Net change in net assets	\$ (840,883)	\$ 649,527
Adjustments to reconcile net change in net assets to net cash flows from operating activities:		
Depreciation and amortization	229,065	194,161
Paycheck Protection Program loan forgiveness	-	(326,312)
Bad debt expense	3,800	9,350
Donated securities	-	(6,102)
Change in fair value of annuity payable	(512)	40,034
Realized and unrealized loss (gain) on investments	223,197	(138,110)
Non cash lease expense	223,053	-
Changes in operating assets and liabilities:		
Accounts receivable	82,495	7,762
Promises to give	-	3,750
Prepaid expenses	40,966	(40,212)
Inventory	(12,934)	(11,112)
Deposits	(8,923)	-
Accounts payable and accrued expenses	131,227	164,626
Deferred revenue	(335,280)	59,568
Deferred rent	(123,353)	(21,739)
Net cash flows from operating activities	<u>(388,082)</u>	<u>585,191</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	400,180	150
Purchases of investments	(5,588)	(46,259)
Reinvested dividends	(33,488)	-
Purchases of property and equipment	(404,957)	(333,113)
Net cash flows from investing activities	<u>(43,853)</u>	<u>(379,222)</u>
<b>Cash flows from financing activities:</b>		
Payments and maturities of annuity obligations	(36,972)	(77,006)
Proceeds from Paycheck Protection Program loan	-	94,112
Net cash flows from financing activities	<u>(36,972)</u>	<u>17,106</u>
Net change in cash and cash equivalents	(468,907)	223,075
Cash and cash equivalents, beginning of year	627,824	404,749
Cash and cash equivalents, end of year	<u>\$ 158,917</u>	<u>\$ 627,824</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 27,529</u>	<u>\$ 37,549</u>
Right-of-use assets obtained in exchange for lease liabilities	<u>\$ 1,354,891</u>	<u>\$ -</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, 2022 AND 2021

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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 (“U.S. GAAP”) promulgated by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) (the “Guidance”).

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

*Income Taxes* – The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. Management has concluded that the Foundation has maintained its tax-exempt status and that there are no significant uncertain tax positions as of December 31, 2022 and 2021.

*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, 2022 and 2021, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$-0- and \$297,240, respectively.

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

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

The levels of the hierarchy are as follows:

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

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

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

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

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

*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 is stated at its net realizable value. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed the receivable is written off against the allowance. An allowance of \$10,000 was recorded as of December 31, 2022. An allowance was not deemed necessary as of December 31, 2021.

*Promises to Give* – Unconditional promises to give are recorded as contributions in the period the promise is made. Promises to give that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Promises to give expected to be collected beyond one year are reported net of any estimated uncollectible amounts and are discounted to present value using a risk adjusted rate according to their corresponding terms. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the allowance for doubtful accounts. An allowance was not deemed necessary as of December 31, 2022. An allowance of \$23,350 was recorded as of December 31, 2021.

*Inventory* – Inventory held by the Foundation consists of statues and books. Inventory is stated at the lower of cost or net realizable value, net of an allowance for obsolete inventory of \$-0- and \$718 for the years ended December 31, 2022 and 2021.

*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.

*Trademarks* – The Foundation's trademarks are amortized on a straight-line basis over 40 years. Amortization expense for the years ended December 31, 2022 and 2021 was \$793 and \$794, respectively, and has been included with depreciation expense. Amortization expense is expected to be \$793 each year for the next 5 years.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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

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

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

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

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

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

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

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

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. As of December 31, 2022 and 2021, there were conditional contributions.

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

DECEMBER 31, 2022 AND 2021

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

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

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

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

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

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

The expenses that are allocated include the following:

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

*Advertising Expenses* – The Foundation uses advertising to communicate its message and inform the general public on various public policy issues. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2022 and 2021 was \$27,816 and \$81,766, respectively.

*Joint Cost Allocation* – In 2022 and 2021, the Foundation incurred joint costs of 849,591 and \$817,093, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$169,918 and \$326,837, respectively, were allocated to fundraising expense, and \$679,673 and \$490,256, respectively, to program services. No costs were allocated to general and administrative expense.

*Adopted Accounting Pronouncements* – The Foundation adopted the provisions of FASB issued Accounting ASU 2020-07, *Not-for-Profit Entities (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this ASU are intended to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets. The Foundation adopted the ASU on January 1, 2022, and there were no changes to the recognition or presentation of contributed nonfinancial assets as a result of the application of ASU 2020-07.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. FASB also subsequently issued additional ASUs which amended and clarified Topic 842. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (“ROU”) assets and lease liabilities for operating leases on the statement of financial position.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

The Foundation adopted these ASUs effective January 1, 2022 using the modified retrospective approach. As a result of adopting these ASUs, the Foundation recorded ROU assets and lease liabilities of \$1,231,537 and \$1,354,890 respectively. As part of the adoption the deferred rent and deferred lease incentive in place at December 31, 2021 of \$123,353 were reclassified to the ROU asset. The adoption of the new standard had a material impact to the Foundation's change in net assets and cash flows.

*Accounting Pronouncements Not Yet Adopted* – In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, and subsequently related amendments (ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11, and ASU 2022-02). This guidance replaces the existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost based on expected credit losses. The estimate of expected credit losses requires the incorporation of historical information, current conditions, and reasonable and supportable forecasts. This ASU will be effective for the year ending December 31, 2023. The Foundation is currently evaluating the effect the adoption of this ASU will have on the financial statements.

### **Note 2—Description of program services and supporting services**

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

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

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

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

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

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

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

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

DECEMBER 31, 2022 AND 2021

**Note 3—Liquidity and availability**

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

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 158,917	\$ 627,824
Investments	910,121	1,494,422
Accounts receivable, net	84,204	170,499
Total financial assets	<u>1,153,242</u>	<u>2,292,745</u>
Less amounts not available to be used for general expenditures within one year:		
Donor-restricted with purpose restriction	280,747	302,712
Board-designated liquidity reserve	-	630,000
Endowments	203,684	196,662
Total amount not available to be used for general expenditures within one year	<u>484,431</u>	<u>1,129,374</u>
Financial assets available to meet general expenditures within one year	<u>\$ 668,811</u>	<u>\$ 1,163,371</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 average \$420,000. 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 a \$50,000 cash reserve and 35% 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 \$630,000 as a liquidity reserve for the year ended December 31, 2021. The Board has included, as part of its liquidity reserve, a \$85,000 reserve for Capital Improvements and a \$250,000 reserve for Capital Maintenance, for the year ended December 31, 2021. There was no board-designated reserves for the year ended December 31, 2022.

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

DECEMBER 31, 2022 AND 2021

**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, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 697,718	\$ -	\$ -	\$ 697,718
Equity securities	95,450	-	-	95,450
Certificates of deposits	57,472	-	-	57,472
Cash and cash equivalents held within investment accounts	59,481	-	-	59,481
Total investments at fair value	<u>\$ 910,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 910,121</u>

	<b>Investments at Fair Value as of December 31, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 1,186,374	\$ -	\$ -	\$ 1,186,374
Equity securities	92,391	-	-	92,391
Certificates of deposits	101,587	-	-	101,587
Cash and cash equivalents held within investment accounts	114,070	-	-	114,070
Total investments at fair value	<u>\$ 1,494,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,494,422</u>

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

	<b>2022</b>	<b>2021</b>
Interest and dividends	\$ 33,637	\$ 46,704
Realized and unrealized (losses) gains	(223,197)	138,110
Total investment (losses) earnings	<u>\$ (189,560)</u>	<u>\$ 184,814</u>

**Note 5—Promises to give**

The Foundation did not have any promises to give as of December 31, 2022. Promises to give consisted of the following as of December 31, 2021:

Amounts due in:	
Less than one year	\$ 23,350
One to five years	-
	<u>23,350</u>
Less allowance and discount	(23,350)
Total promises to give	<u>\$ -</u>



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

DECEMBER 31, 2022 AND 2021

**Note 6—Property and equipment**

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

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 7,060,097	\$ 6,890,636
Equipment	2,500,602	2,468,375
Furniture and fixtures	2,312,444	2,109,175
Website	<u>200,450</u>	<u>200,450</u>
Total fixed assets	12,073,593	11,668,636
Less accumulated depreciation	<u>(10,827,677)</u>	<u>(10,599,405)</u>
	<u>\$ 1,245,916</u>	<u>\$ 1,069,231</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 at December 31, 2022 and 2021. Depreciation expense for the years ended December 31, 2022 and 2021 was \$228,272 and \$194,161, respectively. Depreciation expense on the statements of cash flows includes \$793 of trademark amortization discussed in Note 1.

**Note 7—Charitable gift annuities**

As of December 31, 2022 and 2021, the Foundation has received cumulative total cash contributions of \$1,698,273, in the form of charitable gift annuities. The liability under the agreements is recorded at the net present value of the estimated income owed to the donors based upon the donors' life expectancy.

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

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

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

2023	\$ 38,580
2024	37,968
2025	35,896
2026	32,050
2027	15,094
Thereafter	<u>29,630</u>
	<u>\$ 189,218</u>

*Changes in Fair Value of Level 3 Liabilities and Related Gains and Losses* – The charitable gift annuities had a change in fair value of \$512 and \$40,034 for 2022 and 2021, respectively. Disbursements and maturities of the annuities amounted to \$36,972 and \$77,006 for the years ended December 31, 2022 and 2021, respectively.

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

DECEMBER 31, 2022 AND 2021

**Note 8—Net assets with donor restrictions**

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

	<u>2022</u>	<u>2021</u>
Subject to purpose restriction:		
Back area build out	\$ 171,015	\$ 171,015
Youth programs	49,961	71,926
Galan Freise Scholarship	<u>59,771</u>	<u>59,771</u>
Total subject to purpose restriction	<u>280,747</u>	<u>302,712</u>
Endowments:		
Subject to appropriation and expenditure:		
Restricted by donor for Zumwalt lecture series	1,620	566
Restricted by donor for outreach program	2,484	2,203
V-12 Program	<u>8,746</u>	<u>3,059</u>
Subtotal	12,850	5,828
Held in perpetuity subject to endowment spending policy and appropriation:		
V-12 program endowment	153,447	153,447
Zumwalt lecture series endowment	28,922	28,922
Outreach program endowment	<u>8,465</u>	<u>8,465</u>
Total endowments	<u>203,684</u>	<u>196,662</u>
Total net assets with donor restrictions	<u>\$ 484,431</u>	<u>\$ 499,374</u>

Net assets with donor restrictions for the years ended December 31, 2022 and 2021 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors of \$21,965 and \$38,891, respectively.

**Note 9—Endowment funds**

The Foundation's endowment funds were established for the purpose of securing the Foundation's long-term financial viability and continuing to meet the needs of the Foundation, which consisted of three funds as of December 31, 2022 and 2021:

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

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

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

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

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

DECEMBER 31, 2022 AND 2021

**Note 9—Endowment funds (continued)**

*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 62% equities and 38% fixed income securities for 2022 and 65% equities and 35% fixed income for 2021.

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

*Funds with Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are required to be reported in net assets with donor restrictions. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new with donor restrictions contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. As of December 31, 2022 and 2021, there were no funds with deficiencies.

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

	<b><u>With Donor Restrictions</u></b>
Endowment Net assets, December 31, 2020	\$ 192,887
Investment income	3,775
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>-</u>
Endowment Net assets, December 31, 2021	196,662
Investment income	7,022
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>-</u>
Endowment Net assets, December 31, 2022	<u><u>\$ 203,684</u></u>

**Note 10—Related party transactions**

The Foundation received significant contributions from certain Board members in support of various programs and operations. Related party contributions were \$236,453 and \$162,381 for the years ended December 31, 2022 and 2021, respectively. Related party receivable balances amounted to \$23,350 as of December 31, 2021, and is included in accounts receivable and promises to give on the statements of financial position. There were no related party receivable balances as of December 31, 2022.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

### Note 11—In-kind contributions

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

### 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, 2022 and 2021, the Foundation contributed \$21,440 and \$20,221, respectively.

### Note 13—Leases

The Foundation leases office space. The Foundation determines whether a contract contains a lease at inception by determining if the contract conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration. The Foundation has elected a practical expedient to account for lease and non-lease components as a single component.

ROU assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses are factored into the determination of the lease term if it is reasonably certain that these options would be exercised by the Foundation. Lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. In order to determine the present value of lease payments, the Foundation uses the implicit rate when it is readily determinable. In order to determine the present value of lease payments, the Foundation uses the incremental borrowing rate based on the information available at lease commencement to determine the present value of lease payments.

The Foundation's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Foundation does not have leases where it is involved with the construction or design of an underlying asset. The Foundation has no material obligation for leases signed but not yet commenced as of December 31, 2022.

The Foundation elected the three transition practical expedients that permit an entity to (a) not reassess whether expired or existing contracts contain leases, (b) not reassess lease classification for existing or expired leases, and (c) not consider whether previously capitalized initial direct costs would be appropriate under the new standard. National Alliance elected the practical expedient not to recognize leases with terms of 12 months or less on the statement of financial position and instead recognize the lease payments on a straight-line basis over the term of the lease.

Future minimum lease payments on lease liabilities as of December 31, 2022 is as follows:

2023	\$ 316,645
2024	625,250
2025	314,180
	<hr/>
Total undiscounted cash flows	1,256,075
Less present value discount	(128,429)
	<hr/>
Total lease liabilities	\$ 1,127,646
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**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2022 AND 2021

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**Note 13—Leases (continued)**

Required supplemental information relating to the leases for the year ended December 31, 2022 is as follows:

Operating lease expense	<u>\$ 413,209</u>
Cash paid for amounts included in measurement of lease liabilities	<u>\$ -</u>
Lease term and discount rate:	
Weighted average remaining lease term	2.5 years
Weighted average discount rate	7.50%

**Note 14—Paycheck Protection Program loan**

The Foundation received a loan under the Paycheck Protection Program (“PPP”) for an amount of \$232,200, which was established under the congressional approved Coronavirus Aid, Relief and Economic Security Act and is administered by the U.S. Small Business Administration (“SBA”). The application for the PPP loan required the Foundation to, in good faith, certify that the economic uncertainty made the loan request necessary to support the ongoing operation of the Foundation. This certification further required the Foundation to take into account their business activity and their ability to access other sources of liquidity sufficient to support the ongoing operations in a manner that was not significantly detrimental to the business. The receipt of the funds from the PPP loans and the forgiveness of the PPP loans is dependent on the Foundation having initially qualified for the PPP loans and qualifying for the forgiveness of such PPP loans based on funds being used for certain expenditures such as payroll costs and rent, as required by the terms of the PPP loans. The Foundation accounted for the PPP loan under ASC 470, *Debt*, in which the loan was recorded when the funds were received. The Foundation applied for forgiveness with the SBA, and on February 24, 2021, the SBA forgave the full original PPP loan and any accrued interest in full. The Foundation also received a second PPP loan for \$94,112 on February 16, 2021, which was forgiven by the SBA on October 19, 2021. As a result, the Foundation recognized \$326,312 as other income on the statement of activities.

**Note 15—Subsequent events**

On March 2, 2023, the Foundation filed for the Employer Retention Tax Credits in the amount of \$331,025.

On May 18, 2023, the Foundation received a bequest of \$2,000,000 from the Estate of George Carney.

The Foundation has performed an evaluation of subsequent events through June 23, 2023, 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.