

**UNITED STATES NAVY MEMORIAL
FOUNDATION**

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

And Report of Independent Auditor

UNITED STATES NAVY MEMORIAL FOUNDATION
TABLE OF CONTENTS

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 Flows7
Notes to the Financial Statements 8-18

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, 2021 and 2020, 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, 2021 and 2020, 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.

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 audit.

Cherry Rebaut LLP

Tysons Corner, Virginia
May 19, 2022

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 627,824	\$ 404,749
Investments	1,494,422	1,304,101
Accounts receivable	170,499	178,261
Promises to give, net of allowance	-	13,100
Prepaid expenses	268,644	228,432
Inventory, net	95,184	84,072
Property and equipment, net	1,069,231	929,485
Trademark, net	6,151	6,945
Total Assets	<u><u>\$ 3,731,955</u></u>	<u><u>\$ 3,149,145</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 299,180	\$ 134,554
Annuities payable	226,702	263,674
Deferred revenue	657,831	598,263
Deferred rent	123,353	145,092
Paycheck Protection Program loan	-	232,200
Total Liabilities	<u>1,307,066</u>	<u>1,373,783</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	1,069,231	929,485
Board-designated	630,000	475,000
Undesignated	226,284	(163,613)
Total Without Donor Restrictions	<u>1,925,515</u>	<u>1,240,872</u>
With Donor Restrictions:		
Subject to purpose restriction	302,712	341,603
Endowments	196,662	192,887
Total With Donor Restrictions	<u>499,374</u>	<u>534,490</u>
Total Net Assets	<u>2,424,889</u>	<u>1,775,362</u>
Total Liabilities and Net Assets	<u><u>\$ 3,731,955</u></u>	<u><u>\$ 3,149,145</u></u>

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

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Direct mail contributions	\$ 2,270,691	\$ -	\$ 2,270,691	\$ 2,276,112	\$ -	\$ 2,276,112
Special projects and events	1,432,602	-	1,432,602	771,589	-	771,589
Private gifts and grants	1,108,379	-	1,108,379	585,557	-	585,557
Navy ceremony	112,613	-	112,613	51,216	-	51,216
Visitor center	111,312	-	111,312	58,336	-	58,336
Affinity program	125,239	-	125,239	118,503	-	118,503
Auxiliary activity - store sales	148,808	-	148,808	99,825	-	99,825
Other income	421,877	-	421,877	3,114	-	3,114
Investment earnings	181,039	3,775	184,814	121,995	5,729	127,724
	5,912,560	3,775	5,916,335	4,086,247	5,729	4,091,976
Net assets released from restrictions	38,891	(38,891)	-	243,129	(243,129)	-
Total Revenue	5,951,451	(35,116)	5,916,335	4,329,376	(237,400)	4,091,976
Expenses:						
Program Services:						
Visitor center services	1,848,028	-	1,848,028	1,397,988	-	1,397,988
Special events	957,763	-	957,763	626,631	-	626,631
Educational services	689,179	-	689,179	405,394	-	405,394
Expenses of auxiliary enterprises	272,295	-	272,295	203,687	-	203,687
Total Program Services	3,767,265	-	3,767,265	2,633,700	-	2,633,700
Supporting Services:						
Fundraising	917,840	-	917,840	1,090,235	-	1,090,235
General and administrative	581,703	-	581,703	456,012	-	456,012
Total Supporting Services	1,499,543	-	1,499,543	1,546,247	-	1,546,247
Total Expenses	5,266,808	-	5,266,808	4,179,947	-	4,179,947
Net change in net assets	684,643	(35,116)	649,527	149,429	(237,400)	(87,971)
Net assets, beginning of year	1,240,872	534,490	1,775,362	1,091,443	771,890	1,863,333
Net assets, end of year	\$ 1,925,515	\$ 499,374	\$ 2,424,889	\$ 1,240,872	\$ 534,490	\$ 1,775,362

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
Printing	886	4,214	175,678	-	180,778	117,017	1,923	299,718
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
Mail shop	-	8,733	91,431	-	100,164	60,954	-	161,118
Event production	13,202	267,791	-	-	280,993	-	-	280,993
Depreciation and amortization expense	122,658	22,216	33,866	-	178,740	-	15,421	194,161
Food and beverage	23,933	22,257	139	-	46,329	-	145	46,474
Database and website maintenance and hosting	9,127	-	2,269	-	11,396	93,955	52,577	157,928
Professional fees and services	11,312	18,950	3,128	1,871	35,261	88,078	84,044	207,383
Building maintenance, equipment rental and custodial service	78,544	3,681	4,557	-	86,782	-	7,662	94,444
Costs of goods sold	81,072	6,561	-	59,924	147,557	-	-	147,557
Marketing	12,436	53,558	15,199	573	81,766	-	-	81,766
Exhibits	-	-	846	-	846	-	-	846
Supplies	37,718	3,484	2,798	3,450	47,450	12,154	15,822	75,426
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
Video production	-	59,500	-	-	59,500	-	-	59,500
CGA interest, adjustments and payments	-	-	-	-	-	-	11,361	11,361
Communications cost	3,570	3,805	1,343	718	9,436	2,471	2,499	14,406
Travel and transportation expense	7,745	3,420	2,231	-	13,396	3,253	-	16,649
Venue rental	-	8,300	-	-	8,300	-	-	8,300
Bad debt expense	-	-	-	-	-	-	9,350	9,350
Miscellaneous	4,539	1,250	13,866	1,250	20,905	634	83,073	104,612
Awards and gifts	-	14,609	-	-	14,609	11,839	-	26,448
Events and ceremonies	991	643	-	-	1,634	-	-	1,634
	<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
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

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

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

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net change in net assets	\$ 649,527	\$ (87,971)
Adjustments to reconcile net change in net assets to net cash flows from operating activities:		
Depreciation and amortization	194,161	196,605
Paycheck Protection Program loan forgiveness	(326,312)	-
Bad debt expense	9,350	18,223
Donated securities	(6,102)	(14,858)
Change in fair value of annuity payable	40,034	17,569
Realized and unrealized gains on investments	(138,110)	(88,523)
Changes in operating assets and liabilities:		
Accounts receivable	7,762	(72,901)
Other receivable	-	49,000
Promises to give	3,750	38,333
Prepaid expenses	(40,212)	(22,602)
Inventory	(11,112)	13,227
Accounts payable and accrued expenses	164,626	(106,863)
Deferred revenue	59,568	210,233
Deferred rent	(21,739)	(15,670)
Net cash flows from operating activities	<u>585,191</u>	<u>133,802</u>
Cash flows from investing activities:		
Proceeds from sales of investments	150	150
Purchases of investments	(46,259)	(39,155)
Purchases of property and equipment	(333,113)	(212,277)
Net cash flows from investing activities	<u>(379,222)</u>	<u>(251,282)</u>
Cash flows from financing activities:		
Payments and maturities of annuity obligations	(77,006)	(50,006)
Proceeds from Paycheck Protection Program loan	94,112	232,200
Net cash flows from financing activities	<u>17,106</u>	<u>182,194</u>
Net change in cash and cash equivalents	223,075	64,714
Cash and cash equivalents, beginning of year	404,749	340,035
Cash and cash equivalents, end of year	<u>\$ 627,824</u>	<u>\$ 404,749</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 37,549</u>	<u>\$ 28,084</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, 2021 AND 2020

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, 2021 and 2020.

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, 2021 and 2020, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$297,240 and \$77,041, 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, 2021 AND 2020

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 was not deemed necessary as of December 31, 2021 and 2020.

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 of \$23,350 and \$15,000 was recorded as of December 31, 2021 and 2020, respectively.

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 \$718 and \$3,102 for the years ended December 31, 2021 and 2020.

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, 2021 and 2020 was \$794 and \$793, respectively, and has been included with depreciation expense.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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, 2021 and 2020, there were conditional contributions.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 was \$81,766 and \$12,142, respectively.

Joint Cost Allocation – In 2021 and 2020, the Foundation incurred joint costs of \$817,093 and \$727,530, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$326,837 and \$500,158, respectively, were allocated to fundraising expense, \$-0- and \$706, respectively, were allocated to general and administrative, and \$490,256 and \$226,666, respectively, to program services.

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

Note 2—Description of program services and supporting services

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

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

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

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

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.

Note 3—Liquidity and availability

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

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 627,824	\$ 404,749
Investments	1,494,422	1,304,101
Accounts receivable	170,499	178,261
Promises to give, net of allowance	-	13,100
Total financial assets	<u>2,292,745</u>	<u>1,900,211</u>
Less amounts not available to be used for general expenditures within one year:		
Donor-restricted with purpose restriction	302,712	341,603
Board-designated liquidity reserve	630,000	475,000
Endowments	<u>196,662</u>	<u>192,887</u>
Total amount not available to be used for general expenditures within one year	<u>1,129,374</u>	<u>1,009,490</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,163,371</u>	<u>\$ 890,721</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 and \$475,000 as a liquidity reserve for the years ended December 31, 2021 and 2020, respectively. The Board has included, as part of its liquidity reserve, a \$85,000 and \$65,000 reserve for Capital Improvements and a \$250,000 and \$135,000 reserve for Capital Maintenance, for the years ended December 31, 2021 and 2020, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 4—Investments and fair value measurements

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

	Investments at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
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>

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

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

	2021	2020
Interest and dividends	\$ 46,704	\$ 40,018
Realized and unrealized gains	138,110	88,523
Advisory and other fees	-	(817)
Total investment earnings	<u>\$ 184,814</u>	<u>\$ 127,724</u>

Note 5—Promises to give

Promises to give consisted of the following at December 31:

	2021	2020
Amounts due in:		
Less than one year	\$ 23,350	\$ 5,000
One to five years	-	23,100
	<u>23,350</u>	<u>28,100</u>
Less allowance and discount	<u>(23,350)</u>	<u>(15,000)</u>
Total promises to give	<u>\$ -</u>	<u>\$ 13,100</u>

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 6—Property and equipment

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

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 6,890,636	\$ 6,774,789
Equipment	2,468,375	2,528,133
Furniture and fixtures	2,109,175	2,182,140
Website	200,450	200,450
Total fixed assets	11,668,636	11,685,512
Less accumulated depreciation	<u>(10,599,405)</u>	<u>(10,756,027)</u>
	<u>\$ 1,069,231</u>	<u>\$ 929,485</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2021 and 2020. Depreciation expense for the years ended December 31, 2021 and 2020, was \$194,161 and \$195,811, respectively. Depreciation expense includes \$794 of trademark amortization discussed in Note 1.

Note 7—Charitable gift annuities

As of December 31, 2021 and 2020, 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:

2022	\$ 38,835
2023	38,580
2024	37,968
2025	35,896
2026	32,050
Thereafter	<u>43,373</u>
	<u>\$ 226,702</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 \$40,034 and \$17,569 for 2021 and 2020, respectively. Disbursements and maturities of the annuities amounted to \$77,006 and \$50,006 for the years ended December 31, 2021 and 2020, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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>2021</u>	<u>2020</u>
Subject to purpose restriction:		
Capital campaign pledges	\$ -	\$ 14,033
Back area build out	171,015	171,015
Youth programs	71,926	96,784
Galan Freise Scholarship	59,771	59,771
Total subject to purpose restriction	<u>302,712</u>	<u>341,603</u>
Endowments:		
Subject to appropriation and expenditure:		
Restricted by donor for Zumwalt lecture series	566	-
Restricted by donor for outreach program	2,203	2,053
V-12 Program	3,059	-
Subtotal	<u>5,828</u>	<u>2,053</u>
Held in perpetuity subject to endowment spending policy and appropriation:		
V-12 program endowment	153,447	153,447
Zumwalt lecture series endowment	28,922	28,922
Outreach program endowment	8,465	8,465
Total endowments	<u>196,662</u>	<u>192,887</u>
Total net assets with donor restrictions	<u>\$ 499,374</u>	<u>\$ 534,490</u>

Net assets with donor restrictions for the years ended December 31, 2021 and 2020 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors of \$38,891 and \$243,129, 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, 2021 and 2020:

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

DECEMBER 31, 2021 AND 2020

Note 9—Endowment funds (continued)

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

Investment Policy – The Foundation commingled net assets with donor restrictions in investments portfolios with net assets without donor restrictions. The Foundation allocated realized and unrealized gains and losses to the endowment funds based on the endowment funds cost basis percentage of the investment portfolio and revenue earned is reported as with donor restrictions. Management decides, based on what the assets were restricted for, the disposition of the restricted revenue in accordance with the donors’ stipulations. The Foundation’s endowment policy is focused on the preservation of capital and amounts are invested in 65% equities and 35% fixed income securities for 2021 and 55% equities and 45% fixed income for 2020.

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, 2021 and 2020, there were no funds with deficiencies.

Changes in endowment net assets for the years ended December 31, 2021 and 2020 are as follows:

	With Donor Restrictions
Endowment Net assets, December 31, 2019	\$ 192,657
Investment income	5,729
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	<u>(5,499)</u>
Endowment Net assets, December 31, 2020	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	<u>\$ 196,662</u>

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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 \$162,381 and \$109,395 for the years ended December 31, 2021 and 2020, respectively. Related party receivable balances amounted to \$23,350 and \$27,200 for the years ended December 31, 2021 and 2020, respectively, and are included in accounts receivable and promises to give on the statements of financial position.

Note 11—Noncash transactions

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

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, 2021 and 2020, the Foundation contributed \$20,221 and \$17,796, respectively.

Note 13—Risks and uncertainties

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or stay-at-home restrictions in certain areas. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including the geographical areas in which the Foundation operates. The Foundation has evaluated the impacts of this outbreak on their daily operations and will continue to monitor the situation. As of the date of this report, there is no estimated impact to the operations of the Foundation.

Note 14—Commitments and contingencies

Operating Lease – In 2009, the Foundation renegotiated their lease for the Visitor Center and office space under an operating lease. The renegotiated terms commenced on July 1, 2015 and expire with the termination of the lease in June 2025. The lease provides for base annual rental payments adjusted for annual increases of 1% on a compound and cumulative basis. Rental expense (including real estate taxes of \$303,931 and \$302,344, respectively), totaled \$897,545 and \$795,972 for the years ended December 31, 2021 and 2020, respectively.

Future commitments under this lease are as follows:

2022	\$	618,948
2023		625,138
2024		631,389
2025		317,265
	\$	<u>2,192,740</u>

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 15—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 16—Subsequent events

The Foundation has performed an evaluation of subsequent events through May 19, 2022, 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.