

**UNITED STATES NAVY MEMORIAL  
FOUNDATION**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended December 31, 2019 and 2018*

*And Report of Independent Auditor*

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
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## Report of Independent Auditor

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

We have audited the accompanying financial statements of the United States Navy Memorial Foundation (the "Foundation") which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the United States Navy Memorial Foundation as of December 31, 2019 and 2018, 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.



Tysons Corner, Virginia  
June 5, 2020

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

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 340,035	\$ 669,836
Investments	1,161,715	933,270
Accounts receivable	108,583	168,607
Other receivable	49,000	-
Promises to give, net	66,433	78,481
Prepaid expenses	205,830	164,393
Inventory, net	97,299	110,846
Property and equipment, net	913,020	1,047,731
Trademark, net	7,738	8,531
<b>Total Assets</b>	<u><u>\$ 2,949,653</u></u>	<u><u>\$ 3,181,695</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 241,417	\$ 454,961
Annuities payable	296,111	323,733
Deferred revenue	388,030	241,242
Deferred rent	160,762	170,426
<b>Total Liabilities</b>	<u>1,086,320</u>	<u>1,190,362</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	913,020	1,047,731
Board-designated	375,000	325,000
Undesignated	(196,577)	(268,900)
<b>Total Without Donor Restriction</b>	<u>1,091,443</u>	<u>1,103,831</u>
With Donor Restrictions:		
Subject to purpose restriction	579,233	691,282
Endowments	192,657	196,220
<b>Total With Donor Restriction</b>	<u>771,890</u>	<u>887,502</u>
<b>Total Net Assets</b>	<u>1,863,333</u>	<u>1,991,333</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,949,653</u></u>	<u><u>\$ 3,181,695</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, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Direct mail contributions	\$ 2,283,476	\$ -	\$ 2,283,476	\$ 2,678,444	\$ -	\$ 2,678,444
Special projects and events	1,032,065	-	1,032,065	1,157,221	-	1,157,221
Private gifts and grants	681,032	-	681,032	1,279,386	-	1,279,386
Navy ceremony	156,191	-	156,191	132,108	-	132,108
Visitor center	423,079	-	423,079	426,933	-	426,933
Affinity program	110,431	-	110,431	111,913	-	111,913
Auxiliary activity - store sales	246,641	-	246,641	229,665	-	229,665
Other income	106,658	-	106,658	7,889	-	7,889
Investment earnings	163,113	4,934	168,047	(47,725)	6,163	(41,562)
	5,202,686	4,934	5,207,620	5,975,834	6,163	5,981,997
Net assets released from restrictions	120,546	(120,546)	-	296,127	(296,127)	-
Total Revenue	5,323,232	(115,612)	5,207,620	6,271,961	(289,964)	5,981,997
Expenses:						
Program Services:						
Visitor center services	1,853,962	-	1,853,962	2,019,740	-	2,019,740
Special events	671,473	-	671,473	681,964	-	681,964
Educational services	653,525	-	653,525	436,147	-	436,147
Expenses of auxiliary enterprises	327,914	-	327,914	320,828	-	320,828
Memorial log	-	-	-	40,672	-	40,672
Total Program Services	3,506,874	-	3,506,874	3,499,351	-	3,499,351
Supporting Services:						
Fundraising	1,234,410	-	1,234,410	2,009,363	-	2,009,363
General and administrative	594,336	-	594,336	625,963	-	625,963
Total Supporting Services	1,828,746	-	1,828,746	2,635,326	-	2,635,326
Total Expenses	5,335,620	-	5,335,620	6,134,677	-	6,134,677
Net change in net assets	(12,388)	(115,612)	(128,000)	137,284	(289,964)	(152,680)
Net assets, beginning of year	1,103,831	887,502	1,991,333	966,547	1,177,466	2,144,013
Net assets, end of year	\$ 1,091,443	\$ 771,890	\$ 1,863,333	\$ 1,103,831	\$ 887,502	\$ 1,991,333

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

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

YEAR ENDED DECEMBER 31, 2019

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

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

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

YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services			
	Visitor Center Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Memorial Log	Total Program Services	Fundraising	General and Administrative	Total
Personnel costs	\$ 648,549	\$ 317,601	\$ 306,536	\$ 75,045	\$ 21,785	\$ 1,369,516	\$ 110,221	\$ 229,410	\$ 1,709,147
Occupancy costs	789,523	4,902	14,607	106,851	9,509	925,392	5,490	49,406	980,288
Printing	4,095	10,395	652	722	702	16,566	486,872	6,576	510,014
Project management fees	-	964	-	-	-	964	248,000	53,967	302,931
Postage	761	1,167	255	12,042	48	14,273	350,253	663	365,189
Mail shop	-	-	-	-	-	-	203,036	-	203,036
Event production	5,401	126,920	341	-	-	132,662	69,600	-	202,262
Depreciation and amortization expense	129,248	2,722	34,578	-	8,026	174,574	7,001	19,516	201,091
Food and beverage	39,695	128,820	4,522	-	-	173,037	-	2,945	175,982
Database/website maintenance and hosting	-	-	-	-	-	-	93,655	56,285	149,940
Legal/other professional fees and services	156,395	3,798	507	5,273	-	165,973	99,679	99,561	365,213
Building maintenance/equipment rental/custodial service	94,108	322	5,973	-	-	100,403	-	9,190	109,593
Costs of goods sold	4,400	7,763	-	107,703	-	119,866	-	-	119,866
Marketing	10,800	3,661	1,197	2,975	-	18,633	7,939	-	26,572
Exhibits	-	1,565	53,267	-	-	54,832	-	-	54,832
Supplies	28,148	3,061	2,034	4,056	203	37,502	19,005	14,868	71,375
Bank and credit card charges	4,210	739	-	2,578	55	7,582	3,352	54,850	65,784
UBIT	27,257	-	-	-	-	27,257	-	4,897	32,154
List rental expense	-	-	-	-	-	-	32,902	-	32,902
Video production	10,000	19,937	-	-	-	29,937	-	-	29,937
CGA interest, adjustments and payments	-	-	-	-	-	-	208,539	-	208,539
Silent auction	-	-	-	-	-	-	57,775	-	57,775
Communications cost	10,891	4,953	4,604	1,182	344	21,974	1,746	3,165	26,885
Travel and transportation expense	28,820	6,489	1,606	-	-	36,915	33	-	36,948
Venue rental	-	32,000	-	-	-	32,000	-	-	32,000
Bad debt expense	8,617	-	-	-	-	8,617	-	15,000	23,617
Miscellaneous	8,395	3,846	3,030	2,401	-	17,672	4,265	5,664	27,601
Awards and gifts	8,153	339	2,186	-	-	10,678	-	-	10,678
Events and ceremonies	2,274	-	252	-	-	2,526	-	-	2,526
	<u>\$ 2,019,740</u>	<u>\$ 681,964</u>	<u>\$ 436,147</u>	<u>\$ 320,828</u>	<u>\$ 40,672</u>	<u>\$ 3,499,351</u>	<u>\$ 2,009,363</u>	<u>\$ 625,963</u>	<u>\$ 6,134,677</u>

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

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Net change in net assets	\$ (128,000)	\$ (152,680)
Adjustments to reconcile net change in net assets to net cash by operating activities:		
Depreciation and amortization	215,907	201,091
Bad debt expense	58,196	23,617
Donated securities	(59,893)	(264,510)
Change in fair value of annuity payable	37,242	167,904
(Premium) discount on annuity payable	(48,991)	6,340
Realized and unrealized (gains) losses on investments	(138,496)	77,627
Changes in operating assets and liabilities:		
Accounts receivable	60,024	(91,795)
Other receivable	(49,000)	-
Promises to give	(46,148)	40,394
Prepaid expenses	(41,437)	(27,363)
Inventory	13,547	467
Accounts payable and accrued expenses	(213,544)	118,047
Deferred revenue	146,788	8,925
Deferred rent	(9,664)	(3,714)
Net cash flows from operating activities	<u>(203,469)</u>	<u>104,350</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	673	337,374
Purchases of investments	(30,729)	(325,673)
Purchases of property and equipment	(80,403)	(260,739)
Net cash flows from investing activities	<u>(110,459)</u>	<u>(249,038)</u>
<b>Cash flows from financing activities:</b>		
Receipt of charitable gift annuities	100,000	-
Payments of annuity obligations	(115,873)	(47,960)
Net cash flows from financing activities	<u>(15,873)</u>	<u>(47,960)</u>
Net change in cash and cash equivalents	(329,801)	(192,648)
Cash and cash equivalents, beginning of year	669,836	862,484
Cash and cash equivalents, end of year	<u>\$ 340,035</u>	<u>\$ 669,836</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 44,729</u>	<u>\$ 32,154</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, 2019 AND 2018

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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, 2019 and 2018.

*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, 2019 and 2018, the Foundation’s cash balances in excess of FDIC insured amounts totaled \$31,811 and \$379,632, respectively.

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

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

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

The levels of the hierarchy are as follows:

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

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

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

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

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

*Accounts Receivable* – Accounts receivable consist primarily of amounts due from special program projects and events, the Navy ceremony, sales and services of auxiliary enterprises, and the Visitor Center activities. Accounts receivable are stated at their net realizable value. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed the receivable is written off against the allowance. An allowance was not deemed necessary as of December 31, 2019 and 2018.

*Promises to Give* – Unconditional promises to give are recorded as contributions in the period the promise is made. Promises to give that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Promises to give expected to be collected beyond one year are reported net of any estimated uncollectible amounts and are discounted to present value using a risk adjusted rate according to their corresponding terms. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the allowance for doubtful accounts. The allowance recorded as of December 31, 2019 and 2018 was \$0 and \$31,511, respectively.

*Inventory* – Inventory held by the Foundation consists of statues and books. Inventory is stated, at the lower of cost or market, net of an allowance for obsolete inventory of \$3,102 and \$3,089 for the years ended December 31, 2019 and 2018, respectively.

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

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

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

*Trademarks* – The Foundation’s trademarks are amortized on a straight-line basis over 40 years. Amortization expense for the years ended December 31, 2019 and 2018, was \$793 and \$794, respectively, and has been included with depreciation expense.

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

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

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

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

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

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

*Recently Adopted Pronouncements* – In June 2018, FASB issued Accounting Standards Update (“ASU”) 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 provides a more detailed framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides additional guidance to help determine whether a contribution is conditional, and better distinguish between a donor-imposed condition and a donor-imposed restriction. The ASU has been applied on a retrospective basis to all periods presented, which did not result in an adjustment to the financial statements.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

*Revenue Recognition* – The Foundation recognizes revenue in accordance with the Revenue Recognition for Not-For-Profit Entities Topic of FASB ASC 958. On January 1, 2019, the Foundation adopted FASB ASC Topic 606, *Revenue from Contracts with Customers*, using a modified retrospective method applied to those contracts that were not substantially complete as of January 1, 2019, which resulted in no material impact to the financial.

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.

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, 2019 and 2018, was \$15,263 and \$26,572, respectively.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

*Joint Cost Allocation* – In 2019 and 2018, the Foundation incurred joint costs of \$913,865 and \$1,078,240, respectively, for informational materials and activities that are included in fundraising appeals. Of those costs, \$706,734 and \$1,040,161, respectively, were allocated to fundraising expense, \$909 and \$7,239, respectively, were allocated to general and administrative, and \$206,222 and \$30,840, 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. Lessor accounting remains consistent with U.S. GAAP. This ASU is effective for fiscal years beginning after December 15, 2021. The Foundation is currently evaluating the effect the ASU will have on the financial statements.

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

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

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

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

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

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

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

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

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

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

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**Note 3—Liquidity and availability**

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

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 340,035	\$ 669,836
Investments	1,161,715	933,270
Accounts receivable	108,583	168,607
Other receivable	49,000	-
Promises to give, net	66,433	78,481
Total financial assets	<u>1,725,766</u>	<u>1,850,194</u>
Less amounts not available to be used for general expenditures within one year:		
Donor-restricted with purpose restriction	579,233	691,282
Board-designated liquidity reserve	375,000	325,000
Endowments	192,657	196,220
Total amount not available to be used for general expenditures within one year	<u>1,146,890</u>	<u>1,212,502</u>
Financial assets available to meet general expenditures within one year	<u>\$ 578,876</u>	<u>\$ 637,692</u>

The Foundation has a goal to maintain cash and short-term investment balances on hand to meet 60 days of ordinary business expenses (exclusive of depreciation), which are on average \$325,000. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, the Foundation maintains \$50,000 cash reserve and 41% of its portfolio in certificates of deposit, short-term treasury instruments, and other fixed-income investments. In addition, the Foundation's Board of Directors has set aside \$375,000 and \$325,000 as a liquidity reserve for the years ended December 31, 2019 and 2018, respectively. The Board has included as part of its liquidity reserve, a \$50,000 reserve for Capital Improvements and a \$50,000 reserve for Capital Maintenance, for both years ended December 31, 2019 and 2018.

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

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

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

There were no transfers between levels of the fair value hierarchy in 2019 and 2018.

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

	<b>2019</b>	<b>2018</b>
Interest and dividends	\$ 30,368	\$ 39,299
Realized and unrealized gains (losses)	138,496	(77,627)
Advisory and other fees	(817)	(3,234)
Total investment earnings	<u>\$ 168,047</u>	<u>\$ (41,562)</u>

**Note 5—Promises to give**

Promises to give consisted of the following at December 31:

	<b>2019</b>	<b>2018</b>
Amounts due in:		
Less than one year	\$ 39,233	\$ 102,792
One to five years	27,200	7,200
	66,433	109,992
Less allowance for uncollectible pledges	-	(31,511)
Total promises to give	<u>\$ 66,433</u>	<u>\$ 78,481</u>

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
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**Note 6—Property and equipment**

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

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 6,623,329	\$ 6,586,615
Equipment	2,467,317	2,467,317
Furniture and fixtures	2,182,140	2,138,451
Website	<u>200,450</u>	<u>200,450</u>
Total fixed assets	11,473,236	11,392,833
Less accumulated depreciation	<u>(10,560,216)</u>	<u>(10,345,102)</u>
	<u>\$ 913,020</u>	<u>\$ 1,047,731</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2019 and 2018. Depreciation expense for the years ended December 31, 2019 and 2018, was \$215,114 and \$200,297, respectively.

**Note 7—Charitable gift annuities**

As of December 31, 2019 and 2018, the Foundation has received cumulative total cash contributions of \$1,698,273 and \$1,598,273, respectively, 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:

2020	\$ 50,371
2021	50,371
2022	50,106
2023	46,297
2024	42,242
Thereafter	<u>56,724</u>
	<u>\$ 296,111</u>



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**Note 7—Charitable gift annuities (continued)**

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

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 323,733	\$ 197,449
Charitable gift annuities received	100,000	-
Change in fair value of annuity payable	37,242	167,904
(Premium) discount, net of interest	(48,991)	6,340
Disbursements and maturities	<u>(115,873)</u>	<u>(47,960)</u>
Balance at December 31	<u>\$ 296,111</u>	<u>\$ 323,733</u>

**Note 8—Line of credit**

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

**Note 9—Net assets with donor restrictions**

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

	<u>2019</u>	<u>2018</u>
Subject to purpose restriction:		
Capital campaign pledges	\$ 226,348	\$ 306,749
Back area build out	171,015	171,015
Youth programs	122,137	153,784
Galan Freise Scholarship	<u>59,733</u>	<u>59,734</u>
Total subject to purpose restriction	<u>579,233</u>	<u>691,282</u>
Endowments:		
Subject to appropriation and expenditure:		
Restricted by donor for Zumwalt lecture series	-	3,797
Restricted by donor for outreach program	<u>1,823</u>	<u>1,625</u>
Subtotal	1,823	5,422
Held in perpetuity subject to endowment spending policy and appropriation:		
V-12 program endowment	153,447	153,411
Zumwalt lecture series endowment	28,922	28,922
Outreach program endowment	<u>8,465</u>	<u>8,465</u>
Total endowments	<u>192,657</u>	<u>196,220</u>
Total net assets with donor restrictions	<u>\$ 771,890</u>	<u>\$ 887,502</u>

Net assets with donor restrictions for the years ended December 31, 2019 and 2018, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors \$120,546 and \$296,127, respectively.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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### Note 10—Endowment funds

The Foundation's endowment funds were established for the purpose of securing the Foundation's long-term financial viability and continuing to meet the needs of the Foundation, which consisted of three funds as of December 31, 2019 and 2018:

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

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

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

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

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

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

*Funds with Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are required to be reported in net assets with donor restrictions. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new with donor restrictions contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. As of December 31, 2019 and 2018, there were no funds with deficiencies.

**UNITED STATES NAVY MEMORIAL FOUNDATION**  
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**Note 10—Endowment funds (continued)**

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	<b>With Donor Restrictions</b>
Endowment Net assets, December 31, 2017	\$ 195,056
Investment income	6,163
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(4,999)
Endowment Net assets, December 31, 2018	196,220
Investment income	4,934
Appropriation of endowment assets for expenditure pursuant to spending-rate policy	(8,497)
Endowment Net assets, December 31, 2019	<u>\$ 192,657</u>

**Note 11—Related party transactions**

The Foundation received significant contributions from certain Board members in support of various programs and operations. Related party contributions were \$355,354 and \$132,916 for the years ended December 31, 2019 and 2018, respectively. Related party receivable balances amounted to \$35,700 and \$123,804 for the years ended December 31, 2019 and 2018, respectively, and are included in accounts receivable and promises to give on the statements of financial position.

**Note 12—Non-cash transactions**

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

The Foundation received contributed professional services during the years ended December 31, 2019 and 2018, with a fair value on the date of donation of \$10,000 and \$0-, respectively.

The Foundation received contributed tangible assets for a silent auction in the amount of \$33,863 and \$37,139 for the years ended December 31, 2019 and 2018, respectively.

**Note 13—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, 2019 and 2018, the Foundation contributed \$28,864 and \$8,079, respectively.

# UNITED STATES NAVY MEMORIAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 14—Commitments and contingencies

The Foundation is involved in litigation arising from the normal course of business. Accruals are recorded when the outcome is probable and can be reasonably estimated in accordance with applicable accounting requirements regarding accounting for contingencies. While the ultimate results of claims and litigation cannot be predicted with certainty, management expects that the ultimate resolution of all pending or threatened claims and litigations as of December 31, 2019 will not have a material effect on the results of operations, financial position or cash flows.

*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 \$300,890 and \$275,102, respectively), totaled \$902,138 and \$905,327 for the years ended December 31, 2019 and 2018, respectively.

Future commitments under this lease are as follows:

2020	\$ 598,276
2021	603,235
2022	607,853
2023	613,932
2024	620,071
Thereafter	311,578
	<u>\$ 3,354,945</u>

### Note 15—Subsequent events

The Foundation has performed an evaluation of subsequent events through June 5, 2020, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

The novel coronavirus (“COVID-19”) has been identified as an event that will likely have a material adverse effect on the global economy and the regional economies. COVID-19 is expected to continue to negatively impact stock markets, cause continued interest rate volatility and movements that could make obtaining financing or refinancing debt obligations more challenging or more expensive, which would have a material adverse effect on the amount of contributions received, and events held at the Foundation.

On May 2, 2020, the Foundation received loan proceeds in the amount of \$232,200 under the Paycheck Protection Program (“PPP”). PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Foundation intends to use the proceeds for purposes consistent with the PPP.

In June 2020, the Foundation signed an amendment to their current building lease which provides an abatement of annual base rent of \$14,286 per month, for seven months beginning June 2020.