



**Financial Statements**  
**Naval War College Foundation, Inc.**  
**December 31, 2021 and 2020**



**NAVAL WAR COLLEGE FOUNDATION, INC.**

***Financial Statements***

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## *Independent Auditors' Report*

The Board of Trustees  
Naval War College Foundation, Inc.  
Newport, Rhode Island

### ***Opinion***

We have audited the financial statements of Naval War College Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and 2020, and the results of its operations 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 these 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 statement 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 for one year after the date that the financial statements are available to be issued.



### ***Auditors' 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 auditors' 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, 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.

*Maya Hoffman McCann P.C.*

Providence, Rhode Island  
March 24, 2022

**NAVAL WAR COLLEGE FOUNDATION, INC.**

***Statements of Financial Position***

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash	\$ 1,620,983	\$ 755,280
Interest receivable	48,716	57,970
Contributions receivable, net	881,141	858,285
Investments	50,257,860	45,752,153
Inventory	70,235	81,222
Prepaid expenses and other assets	45,977	41,156
Property and equipment, net	24,490	31,601
Historical collections	<u>67,598</u>	<u>67,598</u>
<b>Total assets</b>	<b><u>\$ 53,017,000</u></b>	<b><u>\$ 47,645,265</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 235,280	\$ 151,979
Obligation under split-interest agreements	<u>147,902</u>	<u>124,046</u>
<b>Total liabilities</b>	<b><u>383,182</u></b>	<b><u>276,025</u></b>
Net assets:		
Without donor restrictions	14,827,304	12,328,583
With donor restrictions	<u>37,806,514</u>	<u>35,040,657</u>
<b>Total net assets</b>	<b><u>52,633,818</u></b>	<b><u>47,369,240</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 53,017,000</u></b>	<b><u>\$ 47,645,265</u></b>

NAVAL WAR COLLEGE FOUNDATION, INC.

Statement of Activities

Year Ended December 31, 2021  
(with comparative totals for 2020)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>2021 Total</i>	<i>2020 Total</i>
Operating revenues:				
Contributions	\$ 1,904,898	\$ 1,081,050	\$ 2,985,948	\$ 1,212,309
Memberships	334,956	-	334,956	271,499
<b>Total support</b>	<b>2,239,854</b>	<b>1,081,050</b>	<b>3,320,904</b>	<b>1,483,808</b>
Investment return	2,427,395	-	2,427,395	(195,248)
Special events	-	-	-	17,920
Museum store sales, net	44,304	-	44,304	11,940
Endowment return used in operations	1,753,529	-	1,753,529	376,767
Net assets released from restriction	690,244	(690,244)	-	-
<b>Total operating revenues</b>	<b>7,155,326</b>	<b>390,806</b>	<b>7,546,132</b>	<b>1,695,187</b>
Operating expenses:				
Foundation grants	1,881,656	-	1,881,656	985,011
Program services	252,351	-	252,351	235,580
Management and resource development	2,510,281	-	2,510,281	1,797,012
<b>Total operating expenses</b>	<b>4,644,288</b>	<b>-</b>	<b>4,644,288</b>	<b>3,017,603</b>
<b>Change in net assets from operations</b>	<b>2,511,038</b>	<b>390,806</b>	<b>2,901,844</b>	<b>(1,322,416)</b>
Non-operating activities:				
Contributions	-	689,686	689,686	613,178
Investment return, net of endowment return used in operations	-	1,685,365	1,685,365	(636,208)
Change in value of split-interest agreements	(12,317)	-	(12,317)	(7,618)
<b>Change in net assets from non-operating activities</b>	<b>(12,317)</b>	<b>2,375,051</b>	<b>2,362,734</b>	<b>(30,648)</b>
<b>Change in net assets</b>	<b>2,498,721</b>	<b>2,765,857</b>	<b>5,264,578</b>	<b>(1,353,064)</b>
Net assets, beginning of year	12,328,583	35,040,657	47,369,240	48,722,304
<b>Net assets, end of year</b>	<b>\$ 14,827,304</b>	<b>\$ 37,806,514</b>	<b>\$ 52,633,818</b>	<b>\$ 47,369,240</b>

**NAVAL WAR COLLEGE FOUNDATION, INC.**

**Statement of Activities**

**Year Ended December 31, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Operating revenues:			
Contributions	\$ 1,053,221	\$ 159,088	\$ 1,212,309
Memberships	271,499	-	271,499
	<hr/>	<hr/>	<hr/>
<b>Total support</b>	<b>1,324,720</b>	159,088	<b>1,483,808</b>
Investment return	(195,248)	-	(195,248)
Special events	17,920	-	17,920
Museum store sales, net	11,940	-	11,940
Endowment return used in operations	376,767	-	376,767
Net assets released from restriction	846,940	(846,940)	-
	<hr/>	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>2,383,039</b>	<b>(687,852)</b>	<b>1,695,187</b>
Operating expenses:			
Foundation grants	985,011	-	985,011
Program services	235,580	-	235,580
Management and resource development	1,797,012	-	1,797,012
	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>3,017,603</b>	-	<b>3,017,603</b>
<b>Change in net assets from operations</b>	<b>(634,564)</b>	<b>(687,852)</b>	<b>(1,322,416)</b>
Non-operating activities:			
Contributions	-	613,178	613,178
Investment return, net of endowment return used in operations	-	(636,208)	(636,208)
Change in value of split-interest agreements	(7,618)	-	(7,618)
	<hr/>	<hr/>	<hr/>
<b>Change in net assets from non-operating activities</b>	<b>(7,618)</b>	<b>(23,030)</b>	<b>(30,648)</b>
<b>Change in net assets</b>	<b>(642,182)</b>	<b>(710,882)</b>	<b>(1,353,064)</b>
Net assets, beginning of year	12,970,765	35,751,539	48,722,304
	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	<b>\$ 12,328,583</b>	<b>\$ 35,040,657</b>	<b>\$ 47,369,240</b>
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**NAVAL WAR COLLEGE FOUNDATION, INC.**

***Statements of Cash Flows***

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 5,264,578	\$ (1,353,064)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,434	11,434
Net realized and unrealized loss (gain) on investments	(4,621,284)	1,641,270
Change in contributions receivable discount	(12,630)	(33,329)
Contributions restricted for long-term investment	(689,686)	(613,178)
Changes in:		
Interest receivable	9,254	4,322
Contributions receivable	(261,389)	258,928
Inventory	10,987	6,322
Prepaid expenses and other assets	(4,821)	(18,184)
Accounts payable and accrued expenses	83,301	(198,579)
Obligation under split-interest agreements	<u>23,856</u>	<u>(4,506)</u>
<b>Total adjustments</b>	<b><u>(5,450,978)</u></b>	<b><u>1,054,500</u></b>
<b>Net cash used in operating activities</b>	<b><u>(186,400)</u></b>	<b><u>(298,564)</u></b>
<b>Cash flows from investing activities:</b>		
Acquisition of vehicle, furniture and equipment	(4,323)	-
Purchase of investments	(2,669,326)	(1,992,940)
Proceeds from sale/maturities of investments	<u>2,784,903</u>	<u>1,845,292</u>
<b>Net cash provided by (used in) investing activities</b>	<b><u>111,254</u></b>	<b><u>(147,648)</u></b>
<b>Cash flows from financing activities:</b>		
Proceeds restricted for long-term investment	<u>940,849</u>	<u>834,341</u>
<b>Net cash provided by financing activities</b>	<b><u>940,849</u></b>	<b><u>834,341</u></b>
<b>Increase in cash</b>	<b>865,703</b>	<b>388,129</b>
Cash, beginning of year	<u>755,280</u>	<u>367,151</u>
<b>Cash, end of year</b>	<b><u>\$ 1,620,983</u></b>	<b><u>\$ 755,280</u></b>



# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 1 - Organization and Summary of Significant Accounting Policies**

The Naval War College Foundation, Inc. (the "Foundation"), organized in 1969, is a charitable organization whose purpose is to provide a source of support to assist the Naval War College in carrying out its mission to enhance the professional capabilities of its students and conduct research in the development of advanced strategic and tactical concepts. The Internal Revenue Service has determined that the Foundation is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

#### ***Basis of Presentation***

The financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the U.S. which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

#### ***Net Assets Without Donor Restrictions***

Net assets available for general use and not subject to donor-imposed restrictions.

#### ***Net Assets With Donor Restrictions***

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for specific purposes. These assets are held to provide earnings to fund various lectures, awards, conferences and "chairs" at the Naval War College.

#### ***Cash and Cash Equivalents***

The Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are considered part of investments given the expectations of near-term investment. The Foundation maintains its cash and securities in bank and investment deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 1 - Organization and Summary of Significant Accounting Policies (Continued)**

#### ***Investments***

Investments in marketable debt and equity securities are valued at fair value. Fair value is determined as per the fair value policies described later in this section.

Dividends, interest and net gains on investments are reported as increases in endowment corpus included in net assets with donor restrictions if the terms of the underlying gift required that they be added to the principal of a permanent endowment fund, or as increases in accumulated earnings on endowment corpus included in net assets with donor restrictions if the terms of the underlying gift or relevant state law impose restriction on the use of the income or net gains. Income and net gains on board-designated and other funds are reported as an increase in net assets without donor restrictions. Endowment and similar funds are pooled for investment purposes. Investment income is allocated ratably.

#### ***Inventory***

Inventory consists of museum store merchandise held for resale. The inventory is valued at the lower of cost or market determined on first-in, first-out basis.

#### ***Property and Equipment***

Property and equipment is stated at cost and depreciated using the straight-line method over estimated useful lives ranging from three to five years. It is the policy of the Foundation to capitalize those items with a fair value at date of donation or cost exceeding \$1,000.

#### ***Historical Collections***

In accordance with accounting standards for contributions received and contributions made, the Foundation does not recognize contributions of works of art or historical treasures, which meet the following conditions. They are: (1) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (2) protected, kept unencumbered, cared for, and preserved, and (3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collection.

#### ***Revenue Recognition and Operations***

Revenues are reported as increases in net assets without donor restrictions, unless use of the related asset is limited by donor-imposed restrictions, as follows:

##### ***Contributions and Recognition of Donor Restrictions***

Contributions, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash

# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 1 - Organization and Summary of Significant Accounting Policies (Continued)**

#### **Revenue Recognition and Operations (Continued)**

##### **Contributions and Recognition of Donor Restrictions (Continued)**

flows using a risk-adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon incurring expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purpose restriction has been satisfied.

Gifts of property, plant and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. The Foundation reports expirations of donor restrictions when the donated or acquired long-lived asset is placed into service.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. Contributions received pending designation by the donor are considered with donor restrictions until known at which time such are reclassified if required.

##### **Membership Support**

Since members receive only nominal tangible benefits from their membership payments, these dues are contributions in substance. As such, they fall under the treatment of contributions as described above in the section about contributions and recognition of donor restrictions.

The Foundation carries its membership receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Foundation evaluates its membership receivables and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions. Life membership receivables totaled \$19,120 and \$19,900 at December 31, 2021 and 2020, respectively, and are included within prepaid expenses and other assets on the statements of financial position. There was no allowance deemed necessary during the years ended December 31, 2021 and 2020.

##### **Operating and Non-operating Activity**

The statements of activities report the changes in net assets without donor restrictions and net assets with donor restrictions from operating and non-operating activities. Operating revenues without restrictions consist primarily of memberships, special events, museum store sales and contributions without donor restrictions. Investment income included in non-operating includes investment earnings on restricted endowment funds. All other investment income or losses are reported as operating revenue. The Foundation also considers all other contributions and releases from restrictions to be used for long-term purposes as non-operating.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 1 - Organization and Summary of Significant Accounting Policies (Continued)**

#### ***Functional Allocation of Expenses***

The cost of providing program and other services has been summarized on a functional basis in the statements of activities. The natural classification detail of expenses by function are presented at Note 13. Accordingly, management has allocated certain costs among the program and supporting services benefited. Personnel and other costs have been allocated based upon actual time spent or usage.

#### ***Fair Value Measurements***

The Foundation reports required types of financial instruments in accordance with the fair value standards of accounting. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Items reported at fair value on a recurring basis include short-term investments and long-term investments. Non-recurring fair values include items such as the initial recording of pledges.

The fair value standards require that for each item carried at fair value that such be disclosed in accordance with the valuation methods used which fall into three categories as follows:

- Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at measurement date.
- Level 2 – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable.
- Level 3 – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 1 - Organization and Summary of Significant Accounting Policies (Continued)**

#### ***Uncertain Tax Positions***

The Foundation accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Foundation has identified its tax status as a tax exempt entity as a tax position; however, the Foundation has determined that such tax position does not result in an uncertainty requiring recognition. The Foundation is not currently under examination by any taxing jurisdiction. Its Federal tax returns are generally open for examination for the past three years.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### ***Future Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for the year ending December 31, 2022 for the Foundation. The Foundation is evaluating the impact of the new guidance on the financial statements. The Foundation expects that other pending accounting standards will be of limited impact.

#### ***Reclassification***

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on changes in net assets.

#### ***Subsequent Events***

The Foundation has evaluated subsequent events through March 24, 2022, the date the Audit Committee of the Board of Trustees approved and authorized the financial statements to be issued.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 2 - Liquidity and Availability

The Foundation regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities in supporting the Naval War College, as well as the conduct of services undertaken to support those activities, to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Although not expected to be needed, the spendable yet restricted portion of the Foundation's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. See Notes 4 and 9 for further information about the Foundation's investment portfolio, net assets and endowment funds.

The following table shows the total financial assets held by the Foundation available within one year of the balance sheet date to meet general expenditures at December 31:

	<b>2021</b>	<b>2020</b>
Cash	\$ 1,620,983	\$ 755,280
Interest receivable	48,716	57,970
Current contributions receivable	477,208	350,125
Current life memberships receivable	19,120	17,800
Investments	50,257,860	45,752,153
Endowment spending rate distribution and appropriations	1,400,000	1,990,000
Less: Net assets with donor restrictions	<u>(37,806,514)</u>	<u>(35,040,657)</u>
<b>Total financial assets available to meet general expenditures over the next 12 months</b>	<b><u>\$ 16,017,373</u></b>	<b><u>\$ 13,882,671</u></b>

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 3 - Contributions Receivable

At December 31, 2021, contributions receivable consist of:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Gross contributions:			
Due within one year	\$ 73,078	\$ 404,130	\$ 477,208
Due within two to five years	<u>-</u>	<u>406,686</u>	<u>406,686</u>
<b>Total</b>	<b><u>\$ 73,078</u></b>	<b><u>\$ 810,816</u></b>	<b><u>\$ 883,894</u></b>
Discount to present value	<u>-</u>	<u>(2,753)</u>	<u>(2,753)</u>
<b>Contributions receivable, net</b>	<b><u>\$ 73,078</u></b>	<b><u>\$ 808,063</u></b>	<b><u>\$ 881,141</u></b>

At December 31, 2020, contributions receivable consist of:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Gross contributions:			
Due within one year	\$ 12,125	\$ 338,000	\$ 350,125
Due within two to five years	<u>-</u>	<u>523,543</u>	<u>523,543</u>
<b>Total</b>	<b><u>\$ 12,125</u></b>	<b><u>\$ 861,543</u></b>	<b><u>\$ 873,668</u></b>
Discount to present value	<u>-</u>	<u>(15,383)</u>	<u>(15,383)</u>
<b>Contributions receivable, net</b>	<b><u>\$ 12,125</u></b>	<b><u>\$ 846,160</u></b>	<b><u>\$ 858,285</u></b>

Contributions receivable from three donors and two donors represented 87% of total gross contributions receivable at December 31, 2021 and 2020, respectively.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 4 - Fair Value of Financial Instruments

The valuation of the Foundation's financial instruments using the fair value hierarchy consisted of the following as of December 31, 2021:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,444,110	\$ -	\$ -	\$ 2,444,110
Common equities:				
Consumer staples	6,381,520	-	-	6,381,520
Energy	4,560,467	-	-	4,560,467
Healthcare	8,552,645	-	-	8,552,645
Industrials	286,251	-	-	286,251
Real estate	615,375	-	-	615,375
Materials	2,416,373	-	-	2,416,373
Telecommunication services	1,925,324	-	-	1,925,324
Utilities	9,333,765	-	-	9,333,765
Exchange-traded funds	5,968	-	-	5,968
Total common stocks	<u>34,077,688</u>	<u>-</u>	<u>-</u>	<u>34,077,688</u>
Preferred equity:				
Financials	<u>3,011,250</u>	<u>-</u>	<u>-</u>	<u>3,011,250</u>
Total preferred stocks	<u>3,011,250</u>	<u>-</u>	<u>-</u>	<u>3,011,250</u>
Bonds:				
U.S. government agencies	-	108,919	-	108,919
Corporates - domestic	-	5,439,523	-	5,439,523
U.S. treasuries	-	4,423,002	-	4,423,002
Total bonds	<u>-</u>	<u>9,971,444</u>	<u>-</u>	<u>9,971,444</u>
Certificates of deposit	<u>-</u>	<u>753,368</u>	<u>-</u>	<u>753,368</u>
	<u>\$ 39,533,048</u>	<u>\$ 10,724,812</u>	<u>\$ -</u>	<u>\$ 50,257,860</u>



# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 4 - Fair Value of Financial Instruments (Continued)

The valuation of the Foundation's financial instruments using the fair value hierarchy consisted of the following as of December 31, 2020:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 4,903,965	\$ -	\$ -	\$ 4,903,965
Common stocks:				
Consumer staples	4,423,692	-	-	4,423,692
Energy	3,111,535	-	-	3,111,535
Healthcare	6,308,078	-	-	6,308,078
Industrials	261,284	-	-	261,284
Real estate	-	-	-	-
Materials	3,107,194	-	-	3,107,194
Telecommunication services	2,197,260	-	-	2,197,260
Utilities	5,945,285	-	-	5,945,285
Total common stocks	<u>25,354,328</u>	<u>-</u>	<u>-</u>	<u>25,354,328</u>
Preferred stocks:				
Financials	<u>3,011,926</u>	<u>-</u>	<u>-</u>	<u>3,011,926</u>
Total preferred stocks	<u>3,011,926</u>	<u>-</u>	<u>-</u>	<u>3,011,926</u>
Bonds:				
U.S. government agencies	-	115,351	-	115,351
Corporates - domestic	-	6,695,944	-	6,695,944
U.S. treasuries	<u>-</u>	<u>4,655,600</u>	<u>-</u>	<u>4,655,600</u>
Total bonds	<u>-</u>	<u>11,466,895</u>	<u>-</u>	<u>11,466,895</u>
Certificates of deposit	<u>-</u>	<u>1,015,039</u>	<u>-</u>	<u>1,015,039</u>
	<u>\$ 33,270,219</u>	<u>\$ 12,481,934</u>	<u>\$ -</u>	<u>\$ 45,752,153</u>

### Note 5 - Historical Collections

The Foundation has a collection, which consists of paintings, sculptures, charts, memoirs, letters and other rare books and memorabilia of historical significance to the Navy and the Naval War College. This collection is currently loaned to the Naval War College for display in the Naval War College Museum and in the various Naval War College buildings. Post-1991 collection items donated to the Foundation are not capitalized as no estimation of fair value is readily determinable.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 6 - Property and Equipment, Net

Property and equipment, net, consists of the following as of December 31:

	<b>2021</b>	<b>2020</b>
Furniture and equipment	\$ 142,986	\$ 138,662
Less accumulated depreciation	<u>(118,496)</u>	<u>(107,061)</u>
<b>Furniture and equipment, net</b>	<b><u>\$ 24,490</u></b>	<b><u>\$ 31,601</u></b>

Depreciation expense was \$11,434 for the years ended December 31, 2021 and 2020.

### Note 7 - Obligation under Split-Interest Agreements

From time to time, the Foundation receives charitable gift annuities in which donors contribute assets and receive a promise of payment for life. At the end of an agreement's term, the remaining assets are available for the Foundation's use. The portion of the gifts attributable to the present value of the future benefits to be received by the Foundation are recorded in the statements of activities as a contribution without donor restrictions in the period the trust is established. During 2021, the Foundation received assets under such arrangements totaling \$50,000. No such assets were received during 2020. Total assets held under such arrangements were \$263,487 and \$213,487 at December 31, 2021 and 2020, respectively, and are included within investments on the statements of financial position. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments was \$147,902 and \$124,046 at December 31, 2021 and 2020, respectively, calculated utilizing a discount rate at the original date of the instrument (ranging from 2.9% to 6.7%) and applicable mortality tables.

### Note 8 - Museum Store Sales, Net

The Foundation operates a store in the Naval War College Museum, which sells souvenirs and memorabilia. Sales and cost of goods sold were as follows for the years ended December 31:

	<b>2021</b>	<b>2020</b>
Sales	\$ 89,166	\$ 48,121
Cost of goods sold	<u>(44,862)</u>	<u>(36,181)</u>
<b>Net sales</b>	<b><u>\$ 44,304</u></b>	<b><u>\$ 11,940</u></b>

Additionally, the museum store incurs other operating costs consisting primarily of personnel costs and credit card processing fees. These operating costs amounted to \$52,864 and \$7,739 for the years ended December 31, 2021 and 2020, respectively, and are included in program services on the statements of activities.

**NAVAL WAR COLLEGE FOUNDATION, INC.**

***Notes to Financial Statements***

**Note 9 - Net Assets and Endowment Matters**

Net assets with donor restrictions are comprised of the following as of December 31:

	<b>2021</b>	<b>2020</b>
<b>Consumable funds with restrictions:</b>		
Purpose or time restriction:		
Restricted to fund various academic programs at the Naval War College	\$ <u>2,265,994</u>	\$ <u>1,873,258</u>
 Accumulated unspent appropriation from endowment	 <u>24,835</u>	 <u>621,800</u>
 <b>Donor-restricted endowment funds:</b>		
Original donor-restricted gift amount and amount required to be maintained in perpetuity:		
Faculty support	10,420,376	10,260,376
Student support	949,004	936,404
Lectures and conferences	1,385,196	1,385,196
Program support	<u>12,293,533</u>	<u>11,779,313</u>
Total gifts held in perpetuity	<u>25,048,109</u>	<u>24,361,289</u>
 Accumulated gains:		
Faculty support	7,869,379	6,676,848
Student support	702,978	599,917
Lectures and conferences	637,098	522,416
Program support	<u>1,258,121</u>	<u>385,129</u>
Total accumulated gains	<u>10,467,576</u>	<u>8,184,310</u>
 Total endowment funds	 <u>35,515,685</u>	 <u>32,545,599</u>
 <b>Net assets with donor restrictions</b>	 <b>\$ <u>37,806,514</u></b>	 <b>\$ <u>35,040,657</u></b>

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 9 - Net Assets and Endowment Matters (Continued)

Net assets released from donor restrictions by the occurrence of events specified by the donors or by the passage of time were as follows for the years ended December 31:

	2021	2020
<b>Spending policy releases:</b>		
Academic programs at the Naval War College	\$ 1,354,424	\$ 67,550
Foundation administrative fee	399,105	309,217
	<u>1,753,529</u>	<u>376,767</u>
<b>Purpose or time restrictions met:</b>		
Academic programs at the Naval War College	<u>690,244</u>	<u>846,940</u>
<b>Net assets released from restrictions</b>	<b><u>\$ 2,443,773</u></b>	<b><u>\$ 1,223,707</u></b>

The following represents required disclosures relative to the composition of endowment assets and those functioning as endowment assets at December 31, 2021:

	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ <u>54,666</u>	\$ <u>31,974,992</u>	\$ <u>32,029,658</u>
Gifts and additions	<u>-</u>	<u>1,258,363</u>	<u>1,258,363</u>
Total investment return	<u>-</u>	<u>3,438,894</u>	<u>3,438,894</u>
Appropriated for expenditure	<u>(54,666)</u>	<u>(1,156,564)</u>	<u>(1,211,230)</u>
Change in endowment assets and those functioning as endowment assets	<u>(54,666)</u>	<u>3,540,693</u>	<u>3,486,027</u>
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ 35,515,685</u></b>	<b><u>\$ 35,515,685</u></b>

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 9 - Net Assets and Endowment Matters (Continued)

The following represents required disclosures relative to the composition of endowment assets and those functioning as endowment assets at December 31, 2020:

	<i>Net Assets Without Donor Restrictions</i>	<i>Net Assets With Donor Restrictions</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 54,679	\$ 23,199,771	\$ 23,254,450
Gifts and additions	-	9,864,524	9,864,524
Total investment return	(4)	(259,441)	(259,445)
Appropriated for expenditure and spent	(4)	(376,767)	(376,771)
Appropriated for expenditure and unspent	(5)	(453,095)	(453,100)
Change in endowment assets and those functioning as endowment assets	(13)	8,775,221	8,775,208
<b>Endowment assets and those functioning as endowment assets, end of year</b>	<b>\$ 54,666</b>	<b>\$ 31,974,992</b>	<b>\$ 32,029,658</b>

### **Endowment**

The Foundation's endowment consists of approximately 50 individual funds established for a variety of purposes by donors. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### **Interpretation of Relevant Law**

The Foundation follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which requires the tracking of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit stipulations to the contrary. The Foundation classifies as endowment net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original gift value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in endowment net assets is classified as consumable funds with restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. UPMIFA allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the Foundation's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## *Notes to Financial Statements*

### **Note 9 - Net Assets and Endowment Matters (Continued)**

#### ***Investment Objectives and Spending Policy***

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for annual operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indexes while assuming a moderate level of investment risk. Actual returns in any given year may vary. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Distributions from long-term investments are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. The Foundation has adopted this spending policy in order to protect the nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future. Under the Foundation's endowment spending policy for the years ended December 31, 2021 and 2020, the Board of Trustees applied a rate of 3.25% to a 3-year average of the endowment value. Included in the rate is a 1.25% administrative fee allocated to the Foundation for general operations in accordance with updated spending policy effective January 1, 2020, as approved by the Board of Trustees. The Board has approved a 3.25% spend for the year ending December 31, 2022.

Effective January 1, 2020, the Foundation adopted a policy, as approved by the Board of Trustees, whereby any excess of an individual fund's maximum annual approved distribution over the amount spent in accordance with the donor stipulation(s) is to be removed from the endowment at year's end and held as consumable funds with donor restrictions to be spent within one year or as soon as possible. The Foundation held \$24,835 and \$621,800 of such funds at December 31, 2021 and 2020, respectively.

### **Note 10 - Related Parties**

Contributions received from employees and members of the Board of Trustees totaled approximately \$888,000 and \$1,153,000 for the years ended December 31, 2021 and 2020, respectively. Contributions receivable include approximately \$307,000 and \$362,000 due from employees and Board members at December 31, 2021 and 2020, respectively.

The Foundation's office space and museum store space are owned by the College and provided to the Foundation for use at no cost to the Foundation. Accordingly, the Foundation has recognized an in-kind contribution and a matching rent expense of \$74,000 and \$60,000 for the years ended December 31, 2021 and 2020, respectively.

# NAVAL WAR COLLEGE FOUNDATION, INC.

## Notes to Financial Statements

### Note 11 - Pension Plan

The Foundation has a tax sheltered retirement plan (the "Plan") covering all employees who meet certain eligibility requirements. Employees may elect to defer a percentage of their compensation into the Plan. The Foundation contributes 1% of an employee's compensation. Additionally, matching contributions are made by the Foundation equal to 100% of the first 4% deferred by an employee. Contributions made by the Foundation were approximately \$65,000 and \$44,000 for the years ended December 31, 2021 and 2020, respectively.

### Note 12 - Natural Classification of Expenses

Expenses presented by natural classification and function are as follows for the year ended December 31, 2021:

	<i>Program Services and Foundation Support</i>	<i>Management and Resource Development</i>	<i>Total</i>
Salaries and benefits	\$ 237,170	\$ 1,347,708	\$ 1,584,878
Supplies and services	1,896,837	1,054,306	2,951,143
Occupancy and related expenses	-	90,055	90,055
Depreciation and interest	-	11,434	11,434
Other operating expenses	-	6,778	6,778
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total expenses</b>	<b>\$ <u>2,134,007</u></b>	<b>\$ <u>2,510,281</u></b>	<b>\$ <u>4,644,288</u></b>

Expenses presented by natural classification and function are as follows for the year ended December 31, 2020:

	<i>Program Services and Foundation Support</i>	<i>Management and Resource Development</i>	<i>Total</i>
Salaries and benefits	\$ 237,024	\$ 1,157,008	\$ 1,394,032
Supplies and services	983,567	551,513	1,535,080
Occupancy and related expenses	-	73,452	73,452
Depreciation and interest	-	11,484	11,484
Other operating expenses	-	3,555	3,555
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total expenses</b>	<b>\$ <u>1,220,591</u></b>	<b>\$ <u>1,797,012</u></b>	<b>\$ <u>3,017,603</u></b>

**NAVAL WAR COLLEGE FOUNDATION, INC.**

***Notes to Financial Statements***

***Note 12 - Natural Classification of Expenses (Continued)***

Management and resource development on the statements of activities includes approximately \$1,182,000 and \$669,000 of fundraising costs for the years ended December 31, 2021 and 2020, respectively. This amount represents printing, mailing and promotion costs as well as an allocation of employees' costs for salary, taxes, and benefits based on time spent on fundraising activities.