



Financial Statements
Naval War College Foundation, Inc.
December 31, 2022 and 2021



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, 2022 and 2021, 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, 2022 and 2021, 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 statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern 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, there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the 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.

Mayer Hoffman McCann P.C.

Providence, Rhode Island
June 27, 2023

NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Financial Position

	<i>December 31,</i>	
	2022	2021
Assets		
Cash	\$ 461,085	\$ 1,620,983
Interest receivable	40,688	48,716
Contributions receivable, net	556,611	881,141
Investments	51,463,741	50,257,860
Inventory	53,449	70,235
Prepaid expenses and other assets	66,212	45,977
Property and equipment, net	9,993	24,490
Historical collections	67,598	67,598
	<hr/>	<hr/>
Total assets	\$ 52,719,377	\$ 53,017,000
	<hr/>	<hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 192,271	\$ 235,280
Obligation under split-interest agreements	196,924	147,902
	<hr/>	<hr/>
Total liabilities	389,195	383,182
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	14,989,694	14,827,304
With donor restrictions	37,340,488	37,806,514
	<hr/>	<hr/>
Total net assets	52,330,182	52,633,818
	<hr/>	<hr/>
Total liabilities and net assets	\$ 52,719,377	\$ 53,017,000
	<hr/>	<hr/>

NAVAL WAR COLLEGE FOUNDATION, INC.

Statement of Activities

Year Ended December 31, 2022
(with comparative totals for 2021)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>2022 Total</i>	<i>2021 Total</i>
Operating revenues:				
Contributions	\$ 1,788,522	\$ 215,959	\$ 2,004,481	\$ 2,680,833
Contributions - in-kind	299,117	-	299,117	305,115
Memberships	271,831	-	271,831	334,956
Total support	2,359,470	215,959	2,575,429	3,320,904
Investment return	541,332	-	541,332	2,427,395
Museum store sales, net	39,924	-	39,924	44,304
Endowment return used in operations	1,259,894	-	1,259,894	1,753,529
Net assets released from restriction	661,862	(661,862)	-	-
Total operating revenues	4,862,482	(445,903)	4,416,579	7,546,132
Operating expenses:				
Foundation grants	1,595,268	-	1,595,268	1,881,656
Program services	385,847	-	385,847	252,351
Management and resource development	2,704,245	-	2,704,245	2,510,281
Total operating expenses	4,685,360	-	4,685,360	4,644,288
Change in net assets from operations	177,122	(445,903)	(268,781)	2,901,844
Non-operating activities:				
Contributions	-	19,063	19,063	689,686
Investment return, net of endowment return used in operations	-	(39,186)	(39,186)	1,685,365
Change in value of split-interest agreements	(14,732)	-	(14,732)	(12,317)
Change in net assets from non-operating activities	(14,732)	(20,123)	(34,855)	2,362,734
Change in net assets	162,390	(466,026)	(303,636)	5,264,578
Net assets, beginning of year	14,827,304	37,806,514	52,633,818	47,369,240
Net assets, end of year	\$ 14,989,694	\$ 37,340,488	\$ 52,330,182	\$ 52,633,818

NAVAL WAR COLLEGE FOUNDATION, INC.

Statement of Activities

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues:			
Contributions	\$ 1,599,783	\$ 1,081,050	\$ 2,680,833
Contributions - in-kind	305,115	-	305,115
Memberships	<u>334,956</u>	<u>-</u>	<u>334,956</u>
Total support	2,239,854	1,081,050	3,320,904
Investment return	2,427,395	-	2,427,395
Museum store sales, net	44,304	-	44,304
Endowment return used in operations	1,753,529	-	1,753,529
Net assets released from restriction	<u>690,244</u>	<u>(690,244)</u>	<u>-</u>
Total operating revenues	<u>7,155,326</u>	<u>390,806</u>	<u>7,546,132</u>
Operating expenses:			
Foundation grants	1,881,656	-	1,881,656
Program services	252,351	-	252,351
Management and resource development	<u>2,510,281</u>	<u>-</u>	<u>2,510,281</u>
Total operating expenses	<u>4,644,288</u>	<u>-</u>	<u>4,644,288</u>
Change in net assets from operations	<u>2,511,038</u>	<u>390,806</u>	<u>2,901,844</u>
Non-operating activities:			
Contributions	-	689,686	689,686
Investment return, net of endowment return used in operations	-	1,685,365	1,685,365
Change in value of split-interest agreements	<u>(12,317)</u>	<u>-</u>	<u>(12,317)</u>
Change in net assets from non-operating activities	<u>(12,317)</u>	<u>2,375,051</u>	<u>2,362,734</u>
Change in net assets	2,498,721	2,765,857	5,264,578
Net assets, beginning of year	<u>12,328,583</u>	<u>35,040,657</u>	<u>47,369,240</u>
Net assets, end of year	<u>\$ 14,827,304</u>	<u>\$ 37,806,514</u>	<u>\$ 52,633,818</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Cash Flows

	<i>Years Ended December 31,</i>	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (303,636)	\$ 5,264,578
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	14,497	11,434
Net realized and unrealized gain on investments	(410,816)	(4,621,284)
Change in contributions receivable discount	-	(12,630)
Contributions restricted for long-term investment	(19,063)	(689,686)
Changes in:		
Interest receivable	8,028	9,254
Contributions receivable	124,623	(261,389)
Inventory	16,786	10,987
Prepaid expenses and other assets	(20,235)	(4,821)
Accounts payable and accrued expenses	(43,009)	83,301
Obligation under split-interest agreements	49,022	23,856
	<u>(280,167)</u>	<u>(5,450,978)</u>
Total adjustments		
	<u>(583,803)</u>	<u>(186,400)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Acquisition of property and equipment	-	(4,323)
Purchase of investments	(1,716,616)	(2,669,326)
Proceeds from sale/maturities of investments	921,551	2,784,903
	<u>(795,065)</u>	<u>111,254</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Proceeds restricted for long-term investment	218,970	940,849
	<u>218,970</u>	<u>940,849</u>
Net cash provided by financing activities		
Increase (decrease) in cash	(1,159,898)	865,703
Cash, beginning of year	1,620,983	755,280
Cash, end of year	\$ <u>461,085</u>	\$ <u>1,620,983</u>

See accompanying notes to the financial statements.

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 a 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.

Government grants have been accounted for as conditional contributions and are recorded as revenue when such amounts become unconditional which generally involved meeting the 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. The Foundation received such conditional contributions of \$137,833 during 2022, none of which has been recorded as revenue as conditions have not been met as of December 31, 2022.

In-Kind Contribution Revenue

The Foundation receives certain donated services from various parties. The Foundation recognizes these amounts as revenue and expenses when the recognition criteria are met for recordation at their estimated fair value.

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.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Revenue Recognition and Operations (Continued)

Membership Support (Continued)

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 \$36,020 and \$19,120 at December 31, 2022 and 2021, respectively, and are included within prepaid expenses and other assets on the statements of financial position. There was no allowance deemed necessary at December 31, 2022 and 2021.

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.

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 contributions receivable.

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.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Fair Value Measurements (Continued)

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.

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.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Subsequent Events

The Foundation has evaluated subsequent events through June 27, 2023, the date the Audit Committee of the Board of Trustees approved and authorized the financial statements to be issued.

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 10 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:

	2022	2021
Cash	\$ 461,085	\$ 1,620,983
Interest receivable	40,688	48,716
Current contributions receivable	123,611	73,078
Current life memberships receivable	36,020	19,120
Investments	51,463,741	50,257,860
Endowment spending rate distribution and appropriations	1,100,000	1,400,000
Less: Net assets with donor restrictions	<u>(37,340,488)</u>	<u>(37,806,514)</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 15,884,657</u>	<u>\$ 15,613,243</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 3 - Contributions Receivable

At December 31, 2022, contributions receivable consist of:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Gross contributions:			
Due within one year	\$ 123,611	\$ 203,974	\$ 327,585
Due within two to five years	<u>-</u>	<u>231,779</u>	<u>231,779</u>
Total	<u>\$ 123,611</u>	<u>\$ 435,753</u>	<u>\$ 559,364</u>
Discount to present value	<u>-</u>	<u>(2,753)</u>	<u>(2,753)</u>
Contributions receivable, net	<u>\$ 123,611</u>	<u>\$ 433,000</u>	<u>\$ 556,611</u>

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>
Total	<u>\$ 73,078</u>	<u>\$ 810,816</u>	<u>\$ 883,894</u>
Discount to present value	<u>-</u>	<u>(2,753)</u>	<u>(2,753)</u>
Contributions receivable, net	<u>\$ 73,078</u>	<u>\$ 808,063</u>	<u>\$ 881,141</u>

Contributions receivable from two donors and three donors represented 69% and 87% of total gross contributions receivable at December 31, 2022 and 2021, 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, 2022:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11,570,195	\$ -	\$ -	\$ 11,570,195
Common equities:				
Consumer staples	4,801,230	-	-	4,801,230
Energy	5,269,278	-	-	5,269,278
Healthcare	9,770,804	-	-	9,770,804
Industrials	253,297	-	-	253,297
Materials	1,864,550	-	-	1,864,550
Telecommunication services	1,428,598	-	-	1,428,598
Utilities	9,270,992	-	-	9,270,992
Total common stocks	<u>32,658,749</u>	<u>-</u>	<u>-</u>	<u>32,658,749</u>
Preferred equity:				
Financials	<u>1,458,704</u>	<u>-</u>	<u>-</u>	<u>1,458,704</u>
Total preferred stocks	<u>1,458,704</u>	<u>-</u>	<u>-</u>	<u>1,458,704</u>
Bonds:				
U.S. government agencies	-	99,546	-	99,546
Corporates - domestic	-	3,055,274	-	3,055,274
U.S. treasuries	<u>-</u>	<u>2,138,988</u>	<u>-</u>	<u>2,138,988</u>
Total bonds	<u>-</u>	<u>5,293,808</u>	<u>-</u>	<u>5,293,808</u>
Certificates of deposit	<u>-</u>	<u>482,285</u>	<u>-</u>	<u>482,285</u>
	<u>\$ 45,687,648</u>	<u>\$ 5,776,093</u>	<u>\$ -</u>	<u>\$ 51,463,741</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, 2021:

	Level 1	Level 2	Level 3	Total
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>

Investments measured at Level 1 or Level 2 allow for daily redemption. There were no unfunded commitments associated with investments at December 31, 2022 and 2021.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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.

Note 6 - Property and Equipment, Net

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

	2022	2021
Furniture and equipment	\$ 142,986	\$ 142,986
Less accumulated depreciation	<u>(132,993)</u>	<u>(118,496)</u>
Furniture and equipment, net	<u>\$ 9,993</u>	<u>\$ 24,490</u>

Depreciation expense was \$14,497 and \$11,434 for the years ended December 31, 2022 and 2021, respectively.

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 2022 and 2021, the Foundation received assets under such arrangements totaling \$110,000 and \$50,000, respectively. Total assets held under such arrangements were \$393,551 and \$283,551 at December 31, 2022 and 2021, 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 \$196,924 and \$147,902 at December 31, 2022 and 2021, respectively, calculated utilizing a discount rate at the original date of the instrument (ranging from 1.8% to 6.7%) and applicable mortality tables.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 8 - Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized within the statements of activities included the following for the years ended December 31:

	2022	2021
Professional services	\$ 71,192	\$ 66,388
Advertising and event support	153,925	164,727
Office space and utilities	<u>74,000</u>	<u>74,000</u>
	<u>\$ 299,117</u>	<u>\$ 305,115</u>

The Organization recognized contributed nonfinancial assets within revenue, including professional services, office space and utilities and advertising and event support.

Professional services recognized are comprised of investment brokerage fees. Advertising and event support are comprised primarily of online advertising to support the Foundation's fundraising efforts. These services are valued and reported at the estimated fair value in the financial statements based on current rates for similar investment brokerage services and advertising offerings.

Office space and utilities is comprised of the estimated rent and utilities to occupy the Foundation's administrative office space based on estimated local market price per square footage for like space.

Note 9 - 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:

	2022	2021
Sales	\$ 117,528	\$ 89,166
Cost of goods sold	<u>(77,604)</u>	<u>(44,862)</u>
Net sales	<u>\$ 39,924</u>	<u>\$ 44,304</u>

Additionally, the museum store incurs other operating costs consisting primarily of personnel costs and credit card processing fees. These operating costs amounted to \$101,445 and \$52,864 for the years ended December 31, 2022 and 2021, respectively, and are included in program services on the statements of activities.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters

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

	2022	2021
Consumable funds with restrictions:		
Purpose or time restriction:		
Restricted to fund various academic programs at the Naval War College	\$ <u>1,821,292</u>	\$ <u>2,265,994</u>
Accumulated unspent appropriation from endowment	<u>-</u>	<u>24,835</u>
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amount required to be maintained in perpetuity:		
Faculty support	10,420,376	10,420,376
Student support	963,967	949,004
Lectures and conferences	1,385,196	1,385,196
Program support	<u>12,297,633</u>	<u>12,293,533</u>
Total gifts held in perpetuity	<u>25,067,172</u>	<u>25,048,109</u>
Accumulated gains:		
Faculty support	7,389,080	7,869,379
Student support	757,386	702,978
Lectures and conferences	714,624	637,098
Program support	<u>1,590,934</u>	<u>1,258,121</u>
Total accumulated gains	<u>10,452,024</u>	<u>10,467,576</u>
Total endowment funds	<u>35,519,196</u>	<u>35,515,685</u>
Net assets with donor restrictions	\$ <u>37,340,488</u>	\$ <u>37,806,514</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 10 - 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:

	2022	2021
Spending policy releases:		
Faculty support	\$ 635,791	\$ 1,100,479
Student support	29,360	52,780
Lectures and conferences	31,385	24,717
Program support	188,919	176,448
Foundation administrative fee	<u>374,439</u>	<u>399,105</u>
	1,259,894	1,753,529
Purpose or time restrictions met:		
Academic programs at the Naval War College	<u>661,862</u>	<u>690,244</u>
Net assets released from restrictions	<u>\$ 1,921,756</u>	<u>\$ 2,443,773</u>

The following represents required disclosures relative to the composition of endowment assets at December 31, 2022:

	Net Assets With Donor Restrictions
Endowment assets, beginning of year	\$ <u>35,515,685</u>
Gifts and additions	<u>19,063</u>
Total investment return	<u>1,220,708</u>
Appropriated for expenditure	<u>(1,236,260)</u>
Change in endowment assets and those functioning as endowment assets	<u>3,511</u>
Endowment assets, end of year	<u>\$ 35,519,196</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 10 - 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, 2021:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
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>
Endowment assets and those functioning as endowment assets, end of year	\$ <u><u>-</u></u>	\$ <u><u>35,515,685</u></u>	\$ <u><u>35,515,685</u></u>

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 10 - 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, 2022 and 2021, 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 spending policy as approved by the Board of Trustees. The Board has approved a 3.25% spend for the year ending December 31, 2023.

Note 11 - Related Parties

Contributions received from employees and members of the Board of Trustees totaled approximately \$922,000 and \$888,000 for the years ended December 31, 2022 and 2021, respectively. Contributions receivable include approximately \$214,278 and \$307,000 due from employees and Board members at December 31, 2022 and 2021, respectively.

The Foundation's office space and museum store space are owned by the Naval War 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 for the years ended December 31, 2022 and 2021.

Note 12 - 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 \$85,000 and \$65,000 for the years ended December 31, 2022 and 2021, respectively.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 13 - Natural Classification of Expenses

Expenses presented by natural classification and function are as follows for the year ended December 31, 2022:

	<i>Program Services and Foundation Support</i>	<i>Management and Resource Development</i>	<i>Total</i>
Salaries and benefits	\$ 296,106	\$ 1,366,022	\$ 1,662,128
Supplies and services	89,741	1,215,714	1,305,455
Support to College	1,595,268	-	1,595,268
Occupancy and related expenses	-	105,292	105,292
Depreciation	-	14,497	14,497
Other operating expenses	-	2,720	2,720
	<u> </u>	<u> </u>	<u> </u>
Total expenses	\$ <u>1,981,115</u>	\$ <u>2,704,245</u>	\$ <u>4,685,360</u>

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	15,181	1,054,306	1,069,487
Support to College	1,881,656	-	1,881,656
Occupancy and related expenses	-	90,055	90,055
Depreciation	-	11,434	11,434
Other operating expenses	-	6,778	6,778
	<u> </u>	<u> </u>	<u> </u>
Total expenses	\$ <u>2,134,007</u>	\$ <u>2,510,281</u>	\$ <u>4,644,288</u>

Management and resource development on the statements of activities includes approximately \$1,473,000 and \$1,182,000 of fundraising costs for the years ended December 31, 2022 and 2021, respectively. This amount represents travel, 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.