



Financial Statements

For the Year Ended September 30, 2019



**and
Report Thereon**



NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

TABLE OF CONTENTS
For the Year Ended September 30, 2019

	<i>Page</i>
Independent Auditors' Report.....	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-12

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
National Defense University Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the National Defense University Foundation, Inc. (NDUF), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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. 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.

Continued

- 1 -

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Defense University Foundation, Inc. as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Washington, DC
October 16, 2020

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2019

ASSETS

Current assets

Cash	\$ 303,830
Contribution receivable	10,000
Prepaid expenses	5,932
Bookstore inventory	13,191
Towel fund	<u>44,832</u>

Total Current Assets 377,785

Collections 75,000

Fixed assets, net of accumulated depreciation of \$86,918 -

TOTAL ASSETS \$ 452,785

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 32,624
Accrued expenses	2,289
Towel fund liability	<u>44,832</u>

TOTAL LIABILITIES 79,745

Net Assets

Without donor restrictions	278,820
With donor restrictions	<u>94,220</u>

TOTAL NET ASSETS 373,040

TOTAL LIABILITIES AND NET ASSETS \$ 452,785

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

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 802,297	\$ 80,000	\$ 882,297
Special events	70,000	-	70,000
Bookstore sales	74,523	-	74,523
In-kind contributions	3,740	-	3,740
Other revenue	34,928	-	34,928
Net asset released from restrictions:			
Satisfaction of purpose restrictions	<u>70,423</u>	<u>(70,423)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>1,055,911</u>	<u>9,577</u>	<u>1,065,488</u>
EXPENSES			
Program Services			
Education, Outreach, and Support for National Defense University	<u>764,202</u>	<u>-</u>	<u>764,202</u>
Total Program Services	<u>764,202</u>	<u>-</u>	<u>764,202</u>
Supporting Services:			
Management and general	475,417	-	475,417
Fundraising	<u>82,326</u>	<u>-</u>	<u>82,326</u>
Total Supporting Services	<u>557,743</u>	<u>-</u>	<u>557,743</u>
TOTAL EXPENSES	<u>1,321,945</u>	<u>-</u>	<u>1,321,945</u>
CHANGE IN NET ASSETS	(266,034)	9,577	(256,457)
NET ASSETS, BEGINNING OF YEAR	<u>544,854</u>	<u>84,643</u>	<u>629,497</u>
NET ASSETS, END OF YEAR	<u>\$ 278,820</u>	<u>\$ 94,220</u>	<u>\$ 373,040</u>

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

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019**

	Program Services	Supporting Services			Total
	Education, Outreach, and Support for National Defense University	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 125,820	\$ 214,168	\$ 65,065	\$ 279,233	\$ 405,053
Professional fees	302,910	82,248	-	82,248	385,158
Special events	123,214	7,699	-	7,699	130,913
Meals	79,756	4,307	-	4,307	84,063
Bad debt	-	77,500	-	77,500	77,500
Travel	52,108	18,267	-	18,267	70,375
Miscellaneous	-	11,958	478	12,436	12,436
Payroll taxes	8,711	14,827	4,504	19,331	28,042
NDU support	26,925	-	-	-	26,925
Bookstore-cost of goods sold	24,887	-	-	-	24,887
Supplies	7,318	12,457	3,784	16,241	23,559
Retirement plan contributions	4,695	7,992	2,428	10,420	15,115
Bank and credit card fees	546	8,947	2,015	10,962	11,508
Fringe benefits	2,651	4,512	1,371	5,883	8,534
Depreciation	2,340	3,982	1,210	5,192	7,532
Telephone and internet	1,444	2,459	747	3,206	4,650
Printing and publications	205	1,769	75	1,844	2,049
Insurance	496	844	257	1,101	1,597
Postage	-	1,182	301	1,483	1,483
Repairs and maintenance	176	299	91	390	566
TOTAL EXPENSES	\$ 764,202	\$ 475,417	\$ 82,326	\$ 557,743	\$ 1,321,945

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

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (256,457)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,532
Changes in assets and liabilities	
Contribution receivable	343,000
Prepaid expenses	36,818
Bookstore inventory	3,008
Accounts payable	(95,081)
Accrued expenses	(2,763)
	<u>36,057</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>36,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	<u>(6,891)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,891)</u>
NET INCREASE IN CASH	29,166
CASH, BEGINNING OF YEAR	<u>274,664</u>
CASH, END OF YEAR	<u><u>\$ 303,830</u></u>

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

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019**

1. Organization and Summary of Significant Accounting Policies

Organization

The National Defense University Foundation, Inc. (NDUF) is a not-for-profit 501(c)(3) organization that was incorporated in the Washington DC on July 21, 1982. NDUF seeks to further the academic and professional objectives of the National Defense University (NDU) located at Fort Lesley J. McNair, Washington, D.C., to enhance NDU's teaching functions, chairs and fellowships, seminars, conferences and to achieve the academic ambiance commensurate with what is expected of a prestigious university. NDUF's activities are funded primarily through contributions.

NDUF provides program and general support to NDU and these contributions support NDU's outreach and education efforts. Total contributions provided to NDU for the year ended September 30, 2019 was \$26,925.

Basis of Accounting

The financial statements of NDUF have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Contribution Receivable

NDUF records contribution receivable at their estimated net realizable value. The allowance for doubtful accounts is based on various factors, including management's analysis of the collectibility of the accounts and current economic conditions. A provision for doubtful accounts is made when collection of the full amount is no longer probable.

Collections

Collections are capitalized at cost if the items are purchased or at their fair value on the date of donation if contributed. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and NDUF is protecting and preserving the service potential of the collection item. NDUF's collection consists of military memorabilia that has historical value and NDUF is protecting and preserving the service potential of the collection item. As such, there is no depreciation related to the collection items.

Fixed Assets and Accumulated Depreciation

Fixed assets with a useful life of more than one year and an acquisition cost greater than \$1,000 are capitalized at cost. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, which is three years. The cost of fixed assets retired or disposed of is removed from the accounts along with the related accumulated depreciation, and any gain or loss is reflected in revenue or expense in the accompanying statement of activities. Major additions are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019**

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

NDUF's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for support of NDUF's operations.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of NDUF or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of September 30, 2019, NDUF had no net assets with donor restrictions that are required to be maintained in perpetuity.

Revenue Recognition

Contributions are reported as revenue and support in the year in which payments are received and/or unconditional promises are made. Contributions are considered without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as revenue and support with donor restrictions. When a grantor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), net assets are reclassified from net assets with donor restriction to net assets without donor restriction and reported in the accompanying statement of activities as net assets released from restrictions. Donor-restricted grants and contributions whose restrictions are met in the same reporting period in which they are received are reported as unrestricted revenue and support. Grants that have been committed to NDUF but have not been received as of year-end are reflected as grant receivable in the accompanying statement of financial position. 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 substantially met.

In-Kind Contributions

NDUF receives in-kind support for its operations. These in-kind contributions are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value, as provided by the donor, at the date of receipt. For the year ended September 30, 2019, NDUF received in-kind contributions of \$3,740 consisting of meeting expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to specific functional areas of NDUF are reported as expenses of those functional areas. Salaries are allocated to programs and supporting services based on employees' timesheets. Fringe benefits and payroll taxes and other shared costs are allocated to programs and supporting services based on actual payroll costs charged to each program and supporting service area.

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. NDUF has adjusted the presentation of these statements accordingly.

2. Contribution Receivable

Contributions receivable of \$10,000 represent promises to give from an organization and was due within one year as of September 30, 2019. The receivable is deemed fully collectible. Accordingly, no allowance for uncollectible contribution receivable has been provided.

3. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of September 30, 2019:

iCollege 20 th Anniversary program	\$ 38,686
Institute for National Strategic Studies	16,528
ACSS Chagoury gift	14,780
Executive Search	10,835
CCO Inclusive Security project	5,655
NWC Kennan chair	2,326
Other programs	<u>5,410</u>
Total Net Assets With Donor Restrictions	<u>\$ 94,220</u>

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

4. Liquidity and Availability

NDUF regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. NDUF's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2019, were as follows:

Cash	\$ 303,830
Contribution receivable	<u>10,000</u>
Total Financial Assets Available Within One Year	313,830
Less:	
Amounts unavailable for general expenditures within one year due to donor's with purpose restrictions	<u>(94,220)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 219,610</u>

NDUF has various sources of liquidity at its disposal, including cash and contributions receivable, which are available for general expenditures, liabilities and other obligations as they come due. NDUF's working capital and cash flows come from contributions that are received at various time throughout the year. Management is focused on sustaining the financial liquidity of NDUF throughout the year. This is done through monitoring and reviewing NDUF's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of NDUF's cash flows related to NDUF's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs.

5. Concentration of Credit Risk

NDUF maintains its cash with certain commercial financial institutions, which aggregate balance may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of September 30, 2019, the NDUF's cash balances exceeded the maximum limit insured by the FDIC by approximately \$56,000. NDUF monitors the creditworthiness of the institution and has not experienced any credit losses on its cash.

6. Major Grantor and Related Party Transaction

For the year ended September 30, 2019, NDUF recognized revenue of \$353,000 from a Board member, which is approximately 33% of NDUF's total revenue and support.

7. Pension Plan

NDUF sponsors a 403(b) defined contribution plan (the Plan) for retirement benefits for all its full-time employees. Employees who are at least 21 years of age with at least six months of service are eligible to participate. Eligible employees may elect to defer and contribute to the

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019**

7. Pension Plan (continued)

Plan a portion of their compensation in amounts up to the maximum permitted by law. NDUF currently matches elective employee contributions to the Plan each year up to 5% of the participant's compensation. Total contributions to the Plan for the year ended September 30, 2019, was \$15,116.

8. Towel Fund

NDUF collects towel fund fees on behalf of NDU, which are to be used exclusively for purchase and maintenance of towels in the athletic department of NDU. In accordance with the provisions of Statement of Financial Accounting Standards No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others, the amounts received and disbursed by NDUF for NDU's athletic department are not considered revenue and expenses of NDUF for the year ended September 30, 201, as NDUF has no variance power to redirect these funds for other uses.

9. Income Taxes

NDUF qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes is required for the year ended September 30, 2019, as NDUF had no significant net unrelated business income.

NDUF performed an evaluation of uncertain tax positions for the year ended September 30, 2019, and determined that there are no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2019, the statute of limitations remained open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which NDUF files tax returns; however, there are currently no audits for any tax periods in progress. It is NDUF's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax or interest expense. As of September 30, 2019, NDUF had no accruals for interest and/or penalties.

10. Subsequent Events

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. NDUF has been able to continue most of its operations in a disrupted environment and is making plans to adjust activities that cannot; however, at this point, the extent to which COVID-19 may impact NDUF's financial condition or results of operations is evolving and uncertain.

NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

10. Subsequent Events (continued)

In preparing the financial statements, management has evaluated events and transactions, for potential recognition or disclosure, through October 16, 2020, the date the financial statements were available to be issued. Except for the subsequent event disclosed above, there were no other subsequent events that were required to be disclosed.