

***NATIONAL DEFENSE UNIVERSITY  
FOUNDATION, INC.***

***FINANCIAL STATEMENTS***

***FOR THE FIFTEEN MONTHS ENDED  
SEPTEMBER 30, 2018***

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# Frank & Company, p.c.

Certified Public Accountants  
703-821-0702

## *INDEPENDENT AUDITORS' REPORT*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of National Defense University Foundation, Inc. (the Organization) (a not-for-profit corporation), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses and cash flows for the fifteen months 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

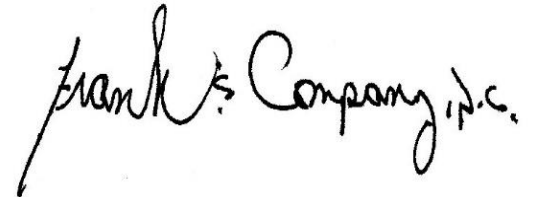
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Defense University Foundation, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the fifteen months then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Financial Statements***

The June 30, 2017 financial statements were reviewed by other accountants, and their report thereon, dated February 22, 2018, stated they were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

A handwritten signature in black ink that reads "Frank & Company, P.C." The signature is written in a cursive, flowing style.

1360 Beverly Road  
Suite 300  
McLean, Virginia 22101  
April 25, 2019

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**STATEMENT OF FINANCIAL POSITION**

SEPTEMBER 30, 2018

**Assets:**

Current assets:

|                          |               |
|--------------------------|---------------|
| Cash                     | \$ 274,664    |
| Contributions receivable | 353,000       |
| Prepaid expenses         | 42,750        |
| Bookstore inventory      | 16,199        |
| Towel fund               | <u>37,722</u> |

Total current assets 724,335

|                             |               |
|-----------------------------|---------------|
| Property and equipment, net | 641           |
| Collections                 | <u>75,000</u> |

Total assets \$ 799,976

**Liabilities and net assets:**

Current liabilities:

|                  |               |
|------------------|---------------|
| Accounts payable | \$ 127,705    |
| Accrued expenses | 5,052         |
| Towel fund       | <u>37,722</u> |

Total liabilities 170,479

**Net assets:**

|                        |               |
|------------------------|---------------|
| Unrestricted           | 544,854       |
| Temporarily restricted | <u>84,643</u> |

Total net assets 629,497

Total liabilities and net assets \$ 799,976

See accompanying notes to financial statements.

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

FOR THE FIFTEEN MONTHS ENDED SEPTEMBER 30, 2018

|                                          | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>      |
|------------------------------------------|---------------------|-----------------------------------|-------------------|
| <b>Revenues and support:</b>             |                     |                                   |                   |
| Contributions                            | \$ 1,097,070        | \$ -                              | \$ 1,097,070      |
| Special events                           | 388,680             | -                                 | 388,680           |
| Bookstore sales                          | 58,396              | -                                 | 58,396            |
| Interest income                          | 39                  | -                                 | 39                |
| Other revenue                            | <u>3,196</u>        | <u>-</u>                          | <u>3,196</u>      |
| Total revenues and support               | <u>1,547,381</u>    | <u>-</u>                          | <u>1,547,381</u>  |
| <b>Expense:</b>                          |                     |                                   |                   |
| Program services                         | <u>522,757</u>      | <u>-</u>                          | <u>522,757</u>    |
| Supporting services:                     |                     |                                   |                   |
| Management and general                   | 343,585             | -                                 | 343,585           |
| Fundraising                              | <u>279,857</u>      | <u>-</u>                          | <u>279,857</u>    |
| Total supporting services                | <u>623,442</u>      | <u>-</u>                          | <u>623,442</u>    |
| Total expenses                           | <u>1,146,199</u>    | <u>-</u>                          | <u>1,146,199</u>  |
| <b>Change in unrestricted net assets</b> | 401,182             | -                                 | 401,182           |
| <b>Net assets, beginning of year</b>     | <u>143,672</u>      | <u>84,643</u>                     | <u>228,315</u>    |
| <b>Net assets, end of year</b>           | <u>\$ 544,854</u>   | <u>\$ 84,643</u>                  | <u>\$ 629,497</u> |

See accompanying notes to financial statements.

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE FIFTEEN MONTHS ENDED SEPTEMBER 30, 2018

|                                 |                             | <u>Supporting Services</u>   |                       |                         |
|---------------------------------|-----------------------------|------------------------------|-----------------------|-------------------------|
|                                 | <u>Program<br/>Services</u> | Management<br>and<br>General | Fundraising           | <u>Total</u>            |
| Salaries                        | \$ 187,509                  | \$ 48,664                    | \$ 35,588             | \$ 271,761              |
| Fringe benefits                 | 25,918                      | 6,726                        | 4,919                 | 37,563                  |
| Payroll taxes                   | 18,576                      | 4,821                        | 3,526                 | 26,923                  |
| Retirement plan contributions   | <u>5,977</u>                | <u>1,551</u>                 | <u>1,134</u>          | <u>8,662</u>            |
| <br>Total salaries and benefits | <br>237,980                 | <br>61,762                   | <br>45,167            | <br>344,909             |
| Special events                  | 72,412                      | 38,991                       | 111,405               | 222,808                 |
| NDU support                     | 133,254                     | -                            | -                     | 133,254                 |
| Bookstore-cost of goods sold    | 56,581                      | -                            | -                     | 56,581                  |
| Miscellaneous                   | 2,835                       | 1,724                        | 2,318                 | 6,877                   |
| Professional fees               | -                           | 198,059                      | 93,516                | 291,575                 |
| Bank and credit card fees       | -                           | 15,646                       | 5,830                 | 21,476                  |
| Telephone and internet          | 185                         | 1,882                        | 1,882                 | 3,949                   |
| Insurance                       | -                           | 4,657                        | -                     | 4,657                   |
| Repairs and maintenance         | 154                         | 635                          | 635                   | 1,424                   |
| Supplies                        | 13,884                      | 8,053                        | 8,053                 | 29,990                  |
| Travel                          | 5,472                       | 2,586                        | 2,586                 | 10,644                  |
| Depreciation                    | -                           | 1,214                        | -                     | 1,214                   |
| Printing and publications       | -                           | 2,729                        | 7,818                 | 10,547                  |
| Bad debt                        | -                           | 5,000                        | -                     | 5,000                   |
| Postage                         | <u>-</u>                    | <u>647</u>                   | <u>647</u>            | <u>1,294</u>            |
|                                 | <br><u>\$ 522,757</u>       | <br><u>\$ 343,585</u>        | <br><u>\$ 279,857</u> | <br><u>\$ 1,146,199</u> |

See accompanying notes to financial statements.

***NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.***

***STATEMENT OF CASH FLOWS***

*FOR THE FIFTEEN MONTHS ENDED SEPTEMBER 30, 2018*

|                                                                                              |                   |
|----------------------------------------------------------------------------------------------|-------------------|
| <b>Cash flows from operating activities:</b>                                                 |                   |
| Change in net assets                                                                         | \$ 401,182        |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                   |
| Depreciation                                                                                 | 1,214             |
| Changes in assets and liabilities:                                                           |                   |
| (Increase) decrease in:                                                                      |                   |
| Contributions receivable                                                                     | (303,000)         |
| Prepaid expenses                                                                             | (33,750)          |
| Bookstore inventory                                                                          | 10,748            |
| Increase (decrease) in:                                                                      |                   |
| Accounts payable                                                                             | 76,222            |
| Accrued expenses                                                                             | <u>5,052</u>      |
| Net cash provided by operating activities                                                    | <u>157,668</u>    |
| Net increase in cash                                                                         | 157,668           |
| Cash, beginning of the year                                                                  | <u>116,996</u>    |
| Cash, end of the year                                                                        | <u>\$ 274,664</u> |

See accompanying notes to financial statements.



***NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.***

***NOTES TO FINANCIAL STATEMENTS***

*SEPTEMBER 30, 2018*

**1. Organization**

The National Defense University Foundation, Inc. (NDUF) is a non-profit organization, formed July 21, 1982 in Washington, D.C. The purpose of NDUF is to further the academic and professional objectives of the National Defense University located at Fort Lesley J. McNair, Washington, D.C. NDUF receive private sector support through grants and donations to enhance NDUF's teaching and research capabilities. These enhancements involve rotating research and teaching functions, chairs and fellowships, seminars, conferences and other specialized means to achieve the academic ambience commensurate with what is expected of a prestigious university.

In furtherance of its mission, NDUF provides program and general support to the National Defense University. These contributions support the University's outreach and education efforts, and totaled \$133,254 for the fifteen months ended September 30, 2018.

**2. Summary of significant accounting policies**

*Basis of accounting* - The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, contributions are recognized upon notification of the existence of the contribution, revenue is recognized when earned and expenses are recognized when incurred.

*Financial statement presentation* - NDUF presents its financial statements in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under FASB ASC 958-205, NDUF is required to report information regarding its financial position and activities according to three classes of net assets as follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met either by actions of NDUF and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by NDUF.

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

SEPTEMBER 30, 2018

**2. Summary of significant accounting policies (continued)**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. NDUF reports gifts of cash and other assets as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When donor restrictions are met in the same reporting period, temporarily restricted contributions are reported as unrestricted contributions.

*Contributions receivable* - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Management periodically reviews the collectability of contributions receivable. Management determines the allowance for doubtful contributions receivable by analyzing the ability of the donor to fulfill the promise. Contributions receivable are written off when considered uncollectible. All contributions receivable at September 30, 2018 were expected to be collected in 2018 and there were no implied time restrictions by the donors. As such, they are considered unrestricted support. All contributions receivable at September 30, 2018 are due within one year and were donated for the period reported in the accompanying financial statements.

*Inventory* - Inventory is recorded at the lower of cost or net realizable value using the first-in first-out method.

*Property and equipment* - NDUF capitalizes, at cost, all expenditures for property and equipment in excess of \$1,000. Depreciation is computed on the straight-line method over the estimated useful lives, ranging from three to seven years.

*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 item.

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

SEPTEMBER 30, 2018

**2. Summary of significant accounting policies (continued)**

*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 the reported amounts of revenues and expenses. Accordingly, actual results could differ from those estimates.

*Tax exempt status* - NDUF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated NDUF's tax positions and has concluded that NDUF has taken no uncertain tax positions that require adjustment to the financial statements. Generally, NDUF's tax returns are open to examination for three years after they were filed.

*Functional allocation of expenses* - Expenses are either charged directly to program services as incurred or allocated to functional categories based on estimates of time spent for salaries, benefits and payroll costs or estimates of usage for items such as occupancy and other indirect costs.

**3. Concentration of credit risk**

Financial instruments that potentially subject NDUF to credit risk include cash deposits in excess of the insurance limitations of the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, NDUF may maintain accounts in excess of the FDIC insurance limit. NDUF has not experienced any losses in such accounts. NDUF believes it is not exposed to any significant financial risk on cash.

**4. Property and equipment**

At September 30, 2018, property and equipment consists of the following:

|                                 |                 |
|---------------------------------|-----------------|
| Furniture                       | \$ 13,686       |
| Computer equipment and software | <u>66,341</u>   |
| Subtotal                        | 80,027          |
| Accumulated depreciation        | <u>(79,386)</u> |
| Property and equipment, net     | <u>\$ 641</u>   |

**NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

SEPTEMBER 30, 2018

**5. Temporarily restricted net assets**

Temporarily restricted net assets as of September 30, 2018 relate to unexpended program contributions as follows:

|                                   |                  |
|-----------------------------------|------------------|
| iCollege 20th Anniversary program | \$ 44,084        |
| NWC Kennan chair                  | 1,528            |
| ACSS Chagoury gift                | 16,711           |
| CCO Inclusive Security project    | 13,833           |
| Other programs                    | <u>8,487</u>     |
| Total                             | <u>\$ 84,643</u> |

**6. In-kind revenue**

NDUF recognizes revenue for certain donated assets and services at their estimated fair value as of the date of the donation. There were no donated services for the fifteen months ended September 30, 2018.

NDUF also uses office space and various other office equipment without charge from the National Defense University. It is not practical to determine a dollar value for the use of these facilities and according no in-kind revenue for these have been included in the accompanying financial statements.

**7. Retirement plan**

NDUF has a 403(b) retirement plan that covers all full-time employees. NDUF matches dollar-for-dollar of eligible employee deferrals up to 5% of the employee's compensation. Retirement contributions for the fifteen months ended September 30, 2018 totaled \$8,662.

**8. Towel fund**

NDUF collects towel fund fees on behalf of the University's athletic department and reports these funds as an asset and related liability. As the funds are expected to be spent within the next twelve months, they are reported as a current asset and liability.

*NATIONAL DEFENSE UNIVERSITY FOUNDATION, INC.*

*NOTES TO FINANCIAL STATEMENTS*

*SEPTEMBER 30, 2018*

**9. Related party transactions**

During the fifteen month period ended September 30, 2018, board members donated \$360,000 to NDUF. Outstanding contribution receivables from board members totaled \$160,000 or 36% of total contribution receivables.

**10. Subsequent events**

Management has evaluated subsequent events through April 25, 2019, when the financial statements were available to be issued.