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**NATIONAL MILITARY FAMILY ASSOCIATION  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2019 AND 2018**

**MATTHEWS, CARTER & BOYCE**  
RESPECT. CONFIDENCE. TRUST.

NATIONAL MILITARY FAMILY ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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MATTHEWS, CARTER & BOYCE  
CPAs • ADVISORS

## INDEPENDENT AUDITORS' REPORT

The Board of Governors  
National Military Family Association  
Alexandria, Virginia

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

We have audited the accompanying financial statements of the National Military Family Association, (NMFA), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider 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 Military Family Association as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Fairfax, Virginia  
May 6, 2020

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,099,633	\$ 2,517,892
Certificates of deposit	459,021	448,510
Pledges receivable	455,281	428,507
Accounts receivable	41,522	-
Prepaid expenses	57,462	39,770
	<u>3,112,919</u>	<u>3,434,679</u>
Total Current Assets	\$ 3,112,919	\$ 3,434,679
<b>OTHER ASSETS</b>		
Property and equipment , net of accumulated depreciation	\$ 57,509	\$ 76,302
Marketable securities	5,182,072	4,422,521
Deposits	21,895	12,230
	<u>5,261,476</u>	<u>4,511,053</u>
Total Other Assets	\$ 5,261,476	\$ 4,511,053
<b>TOTAL ASSETS</b>	<u>\$ 8,374,395</u>	<u>\$ 7,945,732</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 40,672	\$ 31,629
Accrued salaries and related taxes	71,832	58,982
Accrued vacation	87,914	113,891
Deferred revenue	18,219	271,227
Deferred rent, current portion	-	19,343
	<u>218,637</u>	<u>495,072</u>
Total Current Liabilities	\$ 218,637	\$ 495,072
<b>OTHER LIABILITIES</b>		
Deferred rent	54,769	-
	<u>54,769</u>	<u>-</u>
Total Liabilities	\$ 273,406	\$ 495,072
<b>NET ASSETS</b>		
Without donor restrictions		
Board designated for general reserve fund	\$ 4,374,651	\$ 3,753,407
Board designated for scholarships	807,422	669,114
Undesignated	2,103,216	1,939,769
	<u>7,285,289</u>	<u>6,362,290</u>
Total net assets without donor restrictions	\$ 7,285,289	\$ 6,362,290
With donor restrictions	815,700	1,088,370
	<u>815,700</u>	<u>1,088,370</u>
Total Net Assets	\$ 8,100,989	\$ 7,450,660
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 8,374,395</u>	<u>\$ 7,945,732</u>

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

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF ACTIVITIES AND  
CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE</b>			
Contributions and grants	\$ 1,793,796	\$ 2,033,523	\$ 3,827,319
Membership dues	193,609	-	193,609
In-kind donations	23,103	-	23,103
Special events, net of expenses of \$372,442	404,372	-	404,372
Royalties and other	50,531	-	50,531
Interest and dividends	127,100	-	127,100
Total	\$ 2,592,511	\$ 2,033,523	\$ 4,626,034
Net assets released from restrictions			
Scholarships and program grants	2,306,193	(2,306,193)	-
Total Revenue	\$ 4,898,704	\$ (272,670)	\$ 4,626,034
<b>EXPENSES</b>			
Program services			
Strengthening and healing families	\$ 2,609,370	\$ -	\$ 2,609,370
Engaging communities	761,314	-	761,314
Creating change: policy and awareness	764,843	-	764,843
Total program services	\$ 4,135,527	\$ -	\$ 4,135,527
Supporting services			
Management and general	\$ 301,502	\$ -	\$ 301,502
Fundraising and membership	292,731	-	292,731
Total supporting services	\$ 594,233	\$ -	\$ 594,233
Total Expenses	\$ 4,729,760	\$ -	\$ 4,729,760
Change in net assets before other gains and losses	\$ 168,944	\$ (272,670)	\$ (103,726)
Other gains and losses			
Investment return, net	754,055	-	754,055
<b>CHANGE IN NET ASSETS</b>	\$ 922,999	\$ (272,670)	\$ 650,329
<b>NET ASSETS, BEGINNING OF YEAR</b>	6,362,290	1,088,370	7,450,660
<b>NET ASSETS, END OF YEAR</b>	\$ 7,285,289	\$ 815,700	\$ 8,100,989

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

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF ACTIVITIES AND  
CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE</b>			
Contributions and grants	\$ 2,485,259	\$ 2,072,160	\$ 4,557,419
Membership dues	551,117	-	551,117
In-kind donations	32,551	-	32,551
Royalties and other	108,444	-	108,444
Interest and dividends	135,198	-	135,198
Total	\$ 3,312,569	\$ 2,072,160	\$ 5,384,729
Net assets released from restrictions			
Scholarships and program grants	1,494,712	(1,494,712)	-
Total Revenue	\$ 4,807,281	\$ 577,448	\$ 5,384,729
<b>EXPENSES</b>			
Program services			
Strengthening and healing families	\$ 2,147,613	\$ -	\$ 2,147,613
Engaging communities	871,318	-	871,318
Creating change: policy and awareness	733,176	-	733,176
Total program services	\$ 3,752,107	\$ -	\$ 3,752,107
Supporting services			
Management and general	\$ 229,326	\$ -	\$ 229,326
Fundraising and membership	603,325	-	603,325
Total supporting services	\$ 832,651	\$ -	\$ 832,651
Total Expenses	\$ 4,584,758	\$ -	\$ 4,584,758
Change in net assets before other gains and losses	\$ 222,523	\$ 577,448	\$ 799,971
Other gains and losses			
Investment return, net	(319,684)	-	(319,684)
<b>CHANGE IN NET ASSETS</b>	\$ (97,161)	\$ 577,448	\$ 480,287
<b>NET ASSETS, BEGINNING OF YEAR</b>	6,459,451	510,922	6,970,373
<b>NET ASSETS, END OF YEAR</b>	\$ 6,362,290	\$ 1,088,370	\$ 7,450,660

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

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services			Supporting Services				Total Expenses
	Strengthening and Healing Families	Engaging Communities	Creating Change: Policy and Awareness	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries and benefits	\$ 653,798	\$ 479,003	\$ 396,361	\$ 1,529,162	\$ 174,589	\$ 137,804	\$ 312,393	\$ 1,841,555
Military spouse scholarships	789,903	-	-	789,903	-	-	-	789,903
Camp and family retreat contracts	857,539	-	-	857,539	-	-	-	857,539
Outside consultants	48,831	71,757	71,229	191,817	6,314	33,957	40,271	232,088
Website and communication services	16,653	31,833	11,569	60,055	-	24,959	24,959	85,014
Promotional materials and advertising	39,595	35,887	65,094	140,576	226	9,283	9,509	150,085
Rent and office maintenance	52,434	36,275	31,659	120,368	12,082	8,833	20,915	141,283
Relocation services	-	-	-	-	35,302	-	35,302	35,302
Legal, bank fees and accounting	47,703	20,756	28,926	97,385	30,259	18,448	48,707	146,092
IT equipment support	30,722	4,042	6,196	40,960	12,795	1,319	14,114	55,074
Publications, dues and subscriptions	4,513	10,615	47,277	62,405	13,467	25,634	39,101	101,506
Travel	34,460	17,919	36,423	88,802	2,001	7,801	9,802	98,604
Postage, mailing and other services	5,435	3,466	26,378	35,279	1,373	24,213	25,586	60,865
Training, conferences and meetings	1,180	15,438	41,452	58,070	2,740	33	2,773	60,843
Insurance	2,903	1,244	2,035	6,182	10,018	435	10,453	16,635
Supplies and materials	23,701	180	244	24,125	336	12	348	24,474
Depreciation and amortization	-	32,899	-	32,899	-	-	-	32,898
<b>Total expenses</b>	<b>\$ 2,609,370</b>	<b>\$ 761,314</b>	<b>\$ 764,843</b>	<b>\$ 4,135,527</b>	<b>\$ 301,502</b>	<b>\$ 292,731</b>	<b>\$ 594,233</b>	<b>\$ 4,729,760</b>

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



NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total Expenses
	Strengthening and Healing Families	Engaging Communities	Creating Change: Policy and Awareness	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries and benefits	\$ 686,791	\$ 407,778	\$ 483,781	\$ 1,578,350	\$ 148,687	\$ 367,730	\$ 516,417	\$ 2,094,767
Military spouse scholarships	643,242	-	-	643,242	-	-	-	643,242
Camp and family retreat contracts	540,739	-	29,028	569,767	-	-	-	569,767
Outside consultants	25,749	136,573	19,422	181,744	5,344	69,655	74,999	256,743
Promotional materials and advertising	47,174	88,351	7,111	142,636	8,875	683	9,558	152,194
Rent and office maintenance	53,288	23,268	36,715	113,271	8,793	29,051	37,844	151,115
Legal, bank fees and accounting	49,521	29,992	34,444	113,957	23,904	38,081	61,985	175,942
IT equipment support	30,324	19,999	20,954	71,277	12,905	16,285	29,190	100,467
Publications, dues and subscriptions	4,038	7,904	19,847	31,789	6,220	4,115	10,335	42,124
Travel	26,738	8,248	19,894	54,880	2,834	4,220	7,054	61,934
Postage, mailing and other services	11,278	9,579	14,217	35,074	2,700	24,736	27,436	62,510
Training, conferences and meetings	1,047	1,811	36,396	39,254	2,032	28,110	30,142	69,396
Insurance	4,265	2,623	3,013	9,901	1,876	2,280	4,156	14,057
Software and licenses	19,945	104,720	5,900	130,565	3,628	16,522	20,150	150,716
Depreciation and amortization	3,474	30,472	2,454	36,400	1,528	1,857	3,385	39,784
Total expenses	<u>\$ 2,147,613</u>	<u>\$ 871,318</u>	<u>\$ 733,176</u>	<u>\$ 3,752,107</u>	<u>\$ 229,326</u>	<u>\$ 603,325</u>	<u>\$ 832,651</u>	<u>\$ 4,584,758</u>

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

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from grants, program revenue, contributors	\$ 4,158,920	\$ 4,213,296
Interest and dividend income received	127,100	135,198
Cash paid to suppliers and employees	<u>(4,730,045)</u>	<u>(4,555,582)</u>
Net Cash - Operating Activities	<u>\$ (444,025)</u>	<u>\$ (207,088)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of certificates of deposit	\$ (459,021)	\$ (448,510)
Redemptions of certificates of deposit	448,510	438,180
Purchases of marketable securities	(609,736)	(526,043)
Sales of marketable securities	660,876	585,062
Purchases of property and equipment	<u>(14,863)</u>	<u>(67,705)</u>
Net Cash - Investing Activities	<u>\$ 25,766</u>	<u>\$ (19,016)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (418,259)</u>	<u>\$ (226,104)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,517,892</u>	<u>2,743,996</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 2,099,633</u></u>	<u><u>\$ 2,517,892</u></u>

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

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF CASH FLOWS (CONCLUDED)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash - operating activities		
<b>CHANGE IN NET ASSETS</b>	<b>\$ 650,329</b>	<b>\$ 480,287</b>
Adjustments to reconcile change in net assets to Net Cash -		
Operating Activities:		
Depreciation and amortization	\$ 32,898	\$ 39,784
Realized loss (gain) on sales of marketable securities	(103,742)	(155,007)
Unrealized loss (gain) on marketable securities	(688,239)	437,159
Donated marketable securities	(18,710)	(13,065)
Deferred rent	35,426	(17,176)
Loss on disposal of fixed asset	758	-
Changes in assets and liabilities		
(Increase) decrease in:		
Pledges receivable	(26,774)	-
Accounts receivable	(41,522)	(412,882)
Prepaid expenses	(17,692)	29,205
Deposits	(9,665)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	9,043	(7,478)
Accrued salaries and related taxes	12,850	16,125
Deferred revenue	(253,008)	(610,288)
Accrued vacation	(25,977)	6,248
Total adjustments	<u>\$ (1,094,354)</u>	<u>\$ (687,375)</u>
Net Cash - Operating Activities	<u>\$ (444,025)</u>	<u>\$ (207,088)</u>
Non-cash investing and financing activities		
Donated marketable securities	<u>\$ 18,710</u>	<u>\$ 13,065</u>

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

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 1. **Organization:**

The National Military Family Association (NMFA or the Association) was incorporated in the State of Maryland in December 1969 as a non-stock, not-for-profit organization. The Association was organized to identify and resolve issues of concern to military families and to fight for benefits and programs that strengthen and protect uniform service families. The Association is also recognized as a charitable organization and is primarily supported by charitable contributions and grants. The Association is governed by an elected Board of Governors and has approximately 34,500 concerned and caring members.

NMFA has been determined to be exempt from income tax pursuant to Internal Revenue Code Section 501(c)(3).

### Note 2. **Summary of Significant Accounting Policies:**

#### **Basis of presentation**

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*. Contributions are recognized as revenue when they are received or unconditionally pledged. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of NMFA and changes therein are classified and reported as follows:

**Net assets without donor restrictions** – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of NMFA's management and the Board of Governors.

**Net assets with donor restrictions** – Net assets subject to stipulations imposed by donors or grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of NMFA or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

#### **Revenue recognition**

The Association accounts for contributions in accordance with the requirements of FASB ASC 958, under which contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 2. Summary of Significant Accounting Policies (Continued):

#### Revenue recognition (Concluded)

The Association records contributions when received or when the unconditional promise-to-give is known. Support that is restricted by the donor, including pledges, is reported as an increase in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donated goods or contributed services meeting the requirements for recognition in that they create or enhance non-financial assets or are services that require specialized skills and would typically need to be purchased if not donated are reported at fair value at the time of the donation. Conditional promises-to-give that is, those with a measurable performance or other barrier and a right of return- are not recognized until the conditions on which they depend have been met.

During the years ended December 31, 2019 and 2018, the Association received \$23,103 and \$32,551, respectively, of in-kind donations. These donations are primarily related to donated services, program costs and professional and consulting services. Such activity is included in contributions in the accompanying statement of activities and changes in net assets.

At December 31, 2019, contributions approximating \$768,219 have not been recognized in the accompanying statement of activities because the condition(s) on which they depend have not yet been met. \$18,219 has a condition of social media promotion and \$750,000 has a condition of sending 1600 children to the camps.

Membership dues, which are not refundable, are recognized over the membership period which is the calendar year.

During 2019, NMFA held their 50<sup>th</sup> anniversary gala. Revenue related to the gala included registration and sponsorship fees. Revenue for this special event was recognized when the gala took place.

#### Pledges and accounts receivable and allowance for doubtful accounts

The Association's receivables consist primarily of pledges and bequests. Accounts receivable are recognized when an unconditional promise-to-give from a donor or decedent is both determinable and measurable by the Association. The Association reports its accounts receivable at their net realizable value by periodically reviewing an aging of its accounts receivable for collection purposes and to evaluate the adequacy of the allowance for doubtful accounts. As of December 31, 2019 and 2018, the Association determined that an allowance for doubtful accounts was not required and no significant bad debt expense was recognized during the year.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 2. Summary of Significant Accounting Policies (Continued):

#### Fixed assets and depreciation

The Association capitalizes property and equipment acquisitions with a cost of \$1,000 or greater, at cost or estimated fair value at the time of the donation and reports property and equipment net of accumulated depreciation. The Association depreciates property and equipment using the straight-line method over the estimated useful lives of 3 to 7 years. Expenditures for repairs and maintenance that do not extend the useful life of an asset, supplies and de minimis items are expensed as incurred.

#### Cash equivalents

For financial statement purposes, the Association considers highly liquid debt instruments with original maturities of three months or less, including certain money market funds, to be cash equivalents. As of December 31, 2019 and 2018, the Association had approximately \$605,667 and \$608,661, respectively, in money market funds that are included as cash equivalents in the accompanying financial statements. The Association also reported approximately \$131,133 and \$50,771 in money market funds reported as components of marketable securities, as of December 31, 2019 and 2018, respectively, given the Association's ability and intent for these funds to be reinvested within these portfolios.

#### Certificates of Deposit

As of December 31, 2019 and 2018, the Association had approximately \$459,021 and \$448,510, respectively, invested in certificates of deposit held in several credit unions. The certificates of deposit are reported at fair value and currently have original maturities of 18 to 24 months. The certificates mature during the years ending December 31, 2020 and 2021, and earn interest at annual rates of approximately 2.3-2.5%. The certificates' cost approximates their fair value.

#### Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities.

#### Deferred revenue

The Association evaluates its grants and other funding to determine if grants are unconditional promises to give and thus, accounted for as contribution and either earmarked as net assets with or without donor restrictions. In situations in which the grants include significant stipulations, including the donor's ability to cancel funding at any time, the Association treats the grant as conditional promises to give in which the revenue is not recognized until the grantor's stipulations are substantially met. Any amounts received in advance by the Association under such grants are recorded as deferred revenue.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 2. Summary of Significant Accounting Policies (Continued):

#### Deferred rent

The Association recognizes rent expense on its long-term operating leases on a straight-line basis over the term of the lease. A deferred rent liability is reflected for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization of the lease payments.

#### Concentration of credit risk

The Association maintains its cash and certificates of deposit in financial institutions located in the Washington, DC metropolitan area. The balances at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Throughout the year the balances maintained by the Association exceeds the insured balance.

The Association maintains cash equivalents and marketable securities portfolios with investment brokers which are members of the Securities Investor Protection Corporation (SIPC). The balances maintained in the brokerage accounts are insured by SIPC up to \$500,000. The investments are subject to market fluctuations and risk of loss.

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the corporations and individuals that comprise the contributor base.

#### Advertising

The costs of advertising are expensed as incurred.

#### Use of estimates

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

#### Functional allocation of expenses

The costs of providing various programs, and other activities, have been summarized on a functional basis in the statements of activities and changes in net assets. Costs that can be identified with a particular program or support function are charged directly to that program or function. Salaries and related costs, as well as other costs indirectly related to the programs or support services, have been allocated among the programs and supporting services based upon direct labor dollars and related costs charged to the programs and support services.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 2. Summary of Significant Accounting Policies (Continued):

#### Income taxes

No provision has been made for income taxes, since the Association has been determined to be exempt from income tax pursuant to Internal Revenue Code Section 501(c)(3). There was no unrelated business taxable income during the years ended December 31, 2019 or 2018. The Association files its information tax returns for Federal reporting purposes. The Association is not under audit by any income tax jurisdiction.

FASB ASC 740, *Income Taxes*, requires changes in recognition and measurement for uncertain tax positions. The Association has determined that it currently does not have any uncertain tax positions. If this position changes, the Association will assess the impact of any such matters on its statement of financial position and its results of operations.

#### New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 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. The Association implemented ASU 2016-14 in 2018. The effect of this pronouncement was primarily nomenclature changes from unrestricted and temporarily restricted net assets to net assets without and with donor restrictions and the inclusion of Note 3 on availability and liquidity.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Association has adopted these provisions in the accompanying financial statements. There was no effect to the financial statements from the adoption of these standards.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Association has adopted Topic 606. Analysis of various provisions of this standard resulted in no significant changes in the way the Association recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosure of revenue have been enhanced in accordance with the standard.



# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 2. Summary of Significant Accounting Policies (Concluded):

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Association has adopted the provisions of ASU 2018-08 applicable to both grants and contributions received and to grants and contributions made in the accompanying financial statements. There is no effect on net assets in connection with the implementation of ASU 2018-08.

### Note 3. Availability and Liquidity:

The following represents the Association's financial assets at December 31, 2019 and 2018:

Financial assets at December 31:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,099,633	\$2,517,892
Pledges and accounts receivable	496,803	428,507
Marketable securities	<u>5,182,072</u>	<u>4,422,521</u>
Total financial assets	\$ 7,778,508	\$7,368,920
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(815,700)</u>	<u>(1,088,370)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$6,962,808</u>	<u>\$6,280,550</u>

During the normal course of operations in the year ending December 31, 2020, the Association will receive contribution, grant revenue, sponsorships and membership dues which will be available to spend on general expenditures. Additionally, the Association's Governing Board has established Board designated net assets, see Note 6.

### Note 4. Property and Equipment:

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 264,332	\$ 276,640
Software	<u>183,574</u>	<u>180,867</u>
Total Property and Equipment	\$ 447,906	\$ 457,507
Less, accumulated depreciation	<u>(390,397)</u>	<u>(381,205)</u>
Net Property and Equipment	<u>\$ 57,509</u>	<u>\$ 76,302</u>

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 5. Investments in Marketable Securities:

The Association adopted the provisions of FASB ASC 820, *Fair Value Measurement*. In accordance with FASB ASC 820, NMFA has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are quoted in an active market
- Level 2 – Inputs to the valuation methodology are inputs other than quoted prices that are observable for the assets
- Level 3 – Inputs to the valuation methodology that are unobservable and significant to the fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

All of the investment assets recorded in the statement of financial position are categorized based on the inputs to the valuation technique and are at quoted prices in active markets for identical assets, Level 1 assets. The certificates of deposit are valued based upon observable market inputs for similar securities, including valuation models based upon prices paid for similar assets with similar yields from issuers with similar credit ratings and are included as Level 2 assets.

The Association reports investments in equity securities at fair value, with gains and losses included in the statement of activities and changes in net assets.

The Association's certificates of deposit and marketable securities consist of the following as of December 31, 2019 and 2018:

	2019		2018	
	Cost	Market	Cost	Market
Certificates of deposit	\$ 459,021	\$ 459,021	\$ 448,510	\$ 448,510
Money market funds	131,133	131,133	50,771	50,771
Mutual bond/equity funds	3,970,117	4,579,462	3,959,065	3,990,668
Exchange traded funds	276,864	386,766	258,326	291,775
Corporate equities	35,236	84,711	35,480	89,307
Total	<u>\$ 4,872,371</u>	<u>\$ 5,641,093</u>	<u>\$ 4,752,152</u>	<u>\$ 4,871,031</u>

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**Note 5. Investments in Marketable Securities (Concluded):**

The following table summarizes the fair value of the Association's investments by level at December 31, 2019:

	Fair Value Measurements at Reporting Date Using			
	12/31/19	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Securities				
Certificates of deposit	\$ 459,021	\$ -	\$ 459,021	\$ -
Money market funds	131,133	131,133	-	-
Mutual bond/equity funds	4,579,462	4,579,462	-	-
Exchange traded funds	386,766	386,766	-	-
Corporate equities	84,711	84,711	-	-
Total	<u>\$ 5,641,093</u>	<u>\$ 5,182,072</u>	<u>\$ 459,021</u>	<u>\$ -</u>

The following table summarizes the fair value of the Association's investments by level at December 31, 2018:

	Fair Value Measurements at Reporting Date Using			
	12/31/18	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable Securities				
Certificates of deposit	\$ 448,510	\$ -	\$ 448,510	\$ -
Money market funds	50,771	50,771	-	-
Mutual bond/equity funds	3,990,668	3,990,668	-	-
Exchange traded funds	291,775	291,775	-	-
Corporate equities	89,307	89,307	-	-
Total	<u>\$ 4,871,031</u>	<u>\$ 4,422,521</u>	<u>\$ 448,510</u>	<u>\$ -</u>

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 6. Governing Board Designations:

The Association's governing board has designated, from net assets without donor restrictions, net assets for the following purposes:

	<u>2019</u>	<u>2018</u>
General reserve fund	\$ 4,374,651	\$ 3,753,407
Scholarship reserve fund	<u>807,442</u>	<u>669,114</u>
	<u>\$ 5,182,073</u>	<u>\$ 4,422,521</u>

The Association maintains two investment funds. The first is the Association's organizational invested fund, referred to as the "General Reserve Fund." The second invested fund is strictly designated for the spouse scholarship program and is referred to as the "Scholarship Reserve Fund." The funds are managed by the Finance Committee, the Chair, and the Executive Director, with the support of an outside investment advisor. Fund performance is reviewed by the Board of Governors. The Finance Committee will allocate invested fund assets in investments that are financially conservative and focused on long term growth. The Finance Committee develops specific asset allocation recommendations, which are approved by the Board of Governors.

#### General Reserve Fund:

- The Association's goal for this reserve fund is a minimum of six months of normal operating costs. There is no current maximum goal set for this fund.
- Withdrawal of reserve funds may be authorized by the Chairman of the Board based on the recommendation of the Executive Director with concurrence by the Finance Committee when an emergency exists. Withdrawal of reserve funds for a non-emergency must first be approved by a two-thirds majority of the Board of Governors.

#### Scholarship Reserve Fund:

- This fund was established with the goal of providing sufficient resources to finance a reasonable annual spouse scholarship program and support designated/named scholarships in perpetuity.
- Unless otherwise directed by the Board of Governors, the Association's investment plan is to invest the fund to maintain the fund balance at \$700,000, with the goal of an annual return of at least 5%. Any fund balance exceeding \$700,000 will be withdrawn annually to cover existing named scholarship commitments and to provide additional scholarship awards. In 2018, the fund balance was below the \$700,000 goal. In 2019, investment returns have increased the balance in excess of the \$700,000.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

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### Note 7. Net Assets with Donor Restrictions:

The Association maintains net assets that are donor restricted as follows:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Educational scholarships	\$ 506,700	\$ 540,496
Operation Purple programs	<u>309,000</u>	<u>547,874</u>
	<u>\$ 815,700</u>	<u>\$ 1,088,370</u>

### Note 8. Commitments and Contingencies:

#### Operating lease commitments

The Association leases equipment under various non-cancelable operating leases. The lease agreements have original terms that range from 36 to 63 months and expire at various times through the years ending December 2024-2025. The leases require minimum monthly rental payments totaling approximately \$32,564 as of December 31, 2019.

The Association also leased office space under a non-cancelable operating lease. The lease originated March 2014. Under the terms of this lease the Association was responsible for its proportionate share of operating costs, maintenance, and any applicable taxes and insurance. The lease contained annual rent escalations. The Association recognizes rent expense on this long-term lease on a straight-line basis. Accordingly a deferred rent liability had been reflected for the effects of rent escalations and the difference between actual rent payments and straight line amortization. The deferred rent liability was approximately \$17,464 as of December 31, 2018 and rent expense was \$151,114, including office equipment rentals. The lease also provided for a lease incentive which is also amortized over the term of the lease. The unamortized lease incentive balance is \$1,879 which is included in deferred rent as of December 31, 2018. The life of the lease was March 2014 to September 2019, at which time the Association entered into a new lease.

In August 2019, the Association entered into a new lease agreement for office space under a non-cancelable operating lease. The term of this lease is eighty-nine months, effective October 2019. Under the terms of this lease the Association will be responsible for its proportionate share of operating costs, maintenance, and any applicable taxes and insurance. The lease contains annual rent escalations. The Association will recognize rent expense on this long-term lease on a straight-line basis. Accordingly a deferred rent liability will be reflected for the effects of rent escalations and the difference between actual rent payments and straight line amortization. The lease also provides for a lease incentive in the amount of \$21,895 which will also be amortized over the term of the lease. The deferred rent liability was approximately \$54,769 as of December 31, 2019 and rent expense was approximately \$36,000. The lease also provided for a lease incentive which is also amortized over the term of the lease. The unamortized lease incentive balance is \$21,157 which is included in deferred rent as of December 31, 2019.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**Note 8. Commitments and Contingencies (concluded):**

The future minimum lease payments required under the lease agreements on an annual basis are as follows for the years ending December 31:

2020	\$	95,437
2021		143,201
2022		147,296
2023		151,489
2024		153,918
Thereafter		<u>338,395</u>
Total	\$	<u>1,029,736</u>

**Operating Contingencies**

The Association sponsors various youth programs and summer camps that have inherent risk associated with such activities. Although the Association only sponsors the youth programs or may provide grants for children to attend, the Association purchases insurance coverage with respect to the Association's sponsorship of such activities. Additionally, each camp is required to agree to release, discharge, indemnify and forever hold harmless the Association, its agents, officers, directors, and employees, from any and all claims. Each camp is also required to provide the Association with proof of insurance.

**Note 9. Retirement Plan:**

The Association adopted a 403(b) plan covering all employees meeting certain minimal requirements. Plan participants may make voluntary tax-deferred contributions to the retirement plan up to the maximum amount allowed by the Internal Revenue Code. The Association provides eligible participants matching contributions of \$50 per month. During the years ended 2019 and 2018, the Association incurred retirement plan expenses, including matching contributions and plan administrative costs, approximating \$10,950 and \$10,650, respectively.

**Note 10. Presentation of Prior Year Financial Statements:**

Certain amounts and descriptions in the prior year financial statements have been modified for comparative purposes to conform to the presentation of the current year financial statements. These modifications had no effect on previously reported changes in net assets.

# NATIONAL MILITARY FAMILY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**Note 11. Subsequent Events:**

Subsequent to year end, a pandemic of the Coronavirus (COVID-19) was declared by the World Health Organization. Future events and Operation Purple (camp / retreat) revenues and expenses of the Association are uncertain due to the highly contagious nature of the virus, the requirement for social distancing, limited gatherings and restrictions on travel. In addition, both domestic and international equity markets have experienced significant declines since December 31, 2019. As of May 6, 2020, the amount and likelihood of loss relating to these events is not determined.