

NATIONAL MILITARY FAMILY ASSOCIATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2022 AND 2021



Strategic, Smart and **Wonderfully Human**

NATIONAL MILITARY FAMILY ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

The Board of Governors
National Military Family Association
Alexandria, Virginia

Opinion

We have audited the financial statements of the National Military Family Association, (NMFA), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses 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 NMFA as of December 31, 2022 and 2021, 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.

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 NMFA 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 the 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 NMFA's ability to continue as a going concern for one year after the date that the financial statements are 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 judgment 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 NMFA'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 NMFA'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.

A handwritten signature in black ink that reads "Matthews, Carter and Boye". The signature is written in a cursive, flowing style.

Fairfax, Virginia
May 15, 2023

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,171,376	\$ 1,571,098
Certificates of deposit	107,187	159,757
Pledges receivable, net	66,337	382,298
Prepaid expenses	51,836	43,325
Total Current Assets	\$ 1,396,736	\$ 2,156,478
OTHER ASSETS		
Operating lease right-of-use-asset, net	\$ 549,134	\$ -
Property and equipment, net of accumulated depreciation	28,908	39,968
Marketable securities	5,286,181	6,230,307
Deposits	21,895	21,895
Total Other Assets	\$ 5,886,118	\$ 6,292,170
TOTAL ASSETS	\$ 7,282,854	\$ 8,448,648
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 59,852	\$ 44,067
Accrued salaries and related taxes	124,002	118,816
Accrued vacation	147,127	124,048
Deferred revenue	670,000	900,000
Line of credit	986,948	-
Operating lease liability, current portion	143,998	-
Deferred rent, current portion	-	7,450
Total Current Liabilities	\$ 2,131,927	\$ 1,194,381
OTHER LIABILITIES		
Operating lease liability, net of current portion	482,931	-
Deferred rent, net of current portion	-	77,795
Total Liabilities	\$ 2,614,858	\$ 1,272,176
NET ASSETS		
Without donor restrictions		
Board designated for general reserve fund	\$ 3,661,019	\$ 5,496,485
Board designated for scholarships	625,163	733,822
Undesignated	176,814	255,865
Total net assets without donor restrictions	\$ 4,462,996	\$ 6,486,172
With donor restrictions	205,000	690,300
Total Net Assets	\$ 4,667,996	\$ 7,176,472
TOTAL LIABILITIES AND NET ASSETS	\$ 7,282,854	\$ 8,448,648

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, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 2,659,969	\$ 2,127,519	\$ 4,787,488
Membership dues	6,470	-	6,470
In-kind donations	22,349	59,000	81,349
Royalties and other	2,296	-	2,296
Interest and dividends	115,047	-	115,047
	Total	\$ 2,186,519	\$ 4,992,650
Net assets released from restrictions			
Scholarships and program grants	2,671,819	(2,671,819)	-
	Total Revenue	\$ (485,300)	\$ 4,992,650
EXPENSES			
Program services			
Strengthening and healing families	\$ 3,487,538	\$ -	\$ 3,487,538
Engaging communities	1,116,086	-	1,116,086
Creating change: policy and awareness	551,466	-	551,466
Research and insights	276,448	-	276,448
	Total program services	\$ -	\$ 5,431,538
Supporting services			
Management and general	\$ 552,275	\$ -	\$ 552,275
Fundraising and membership	523,301	-	523,301
	Total supporting services	\$ -	\$ 1,075,576
	Total Expenses	\$ -	\$ 6,507,114
Change in net assets before other gains and losses	\$ (1,029,164)	\$ (485,300)	\$ (1,514,464)
Other gains and losses			
Investment return, net	(994,012)	-	(994,012)
	CHANGE IN NET ASSETS	\$ (485,300)	\$ (2,508,476)
NET ASSETS, BEGINNING OF YEAR	6,486,172	690,300	7,176,472
NET ASSETS, END OF YEAR	\$ 4,462,996	\$ 205,000	\$ 4,667,996

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, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 6,756,318	\$ 2,207,874	\$ 8,964,192
Membership dues	7,932	-	7,932
In-kind donations	7,569	-	7,569
Royalties and other	10,719	-	10,719
Interest and dividends	87,714	-	87,714
	Total	\$ 2,207,874	\$ 9,078,126
Net assets released from restrictions			
Scholarships and program grants	2,287,108	(2,287,108)	-
	Total Revenue	\$ (79,234)	\$ 9,078,126
EXPENSES			
Program services			
Strengthening and healing families	\$ 7,503,868	\$ -	\$ 7,503,868
Engaging communities	1,052,096	-	1,052,096
Creating change: policy and awareness	502,196	-	502,196
Research and insights	245,927	-	245,927
	Total program services	\$ -	\$ 9,304,087
Supporting services			
Management and general	\$ 478,470	\$ -	\$ 478,470
Fundraising and membership	423,750	-	423,750
	Total supporting services	\$ -	\$ 902,220
	Total Expenses	\$ -	\$ 10,206,307
Change in net assets before other gains and losses	\$ (1,048,947)	\$ (79,234)	\$ (1,128,181)
Other gains and losses			
Investment return, net	607,358	-	607,358
	CHANGE IN NET ASSETS	\$ (79,234)	\$ (520,823)
NET ASSETS, BEGINNING OF YEAR	6,927,761	769,534	7,697,295
NET ASSETS, END OF YEAR	\$ 6,486,172	\$ 690,300	\$ 7,176,472

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, 2022

	Program Services				Supporting Services				Total Expenses
	Strengthening and Healing Families	Engaging Communities	Creating Change: Policy and Awareness	Research and Insights	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries and benefits	\$ 618,518	\$ 868,539	\$ 479,030	\$ 216,435	\$ 2,182,522	\$ 218,694	\$ 314,140	\$ 532,834	\$ 2,715,356
Camp and family supplies & materials	980,520	-	-	-	980,520	-	-	-	980,520
Depreciation and amortization	5,574	8,053	4,333	1,949	19,909	1,410	2,652	4,062	23,971
Insurance	-	-	-	-	-	12,795	-	12,795	12,795
Interest	-	-	-	-	-	21,115	-	21,115	21,115
IT equipment support	5,157	6,917	3,306	1,487	16,867	32,054	3,029	35,083	51,950
Legal, bank fees and accounting	23,363	34,049	18,096	8,533	84,041	188,636	10,971	199,607	283,648
Outside consultants	49,574	43,265	-	8,899	101,738	6,960	18,977	25,937	127,675
Postage, mailing and other services	13,460	12	788	5	14,265	1,786	11,789	13,575	27,840
Promotional materials and advertising	54,326	33,241	57	9,350	96,974	2,648	4,086	6,734	103,708
Publications, dues and subscriptions	4,367	6,130	9,953	448	20,898	2,190	25,847	28,037	48,935
Rent and office maintenance	33,958	48,262	25,975	11,681	119,876	16,157	15,901	32,058	151,934
Childcare reimbursements	847,522	-	-	-	847,522	-	-	-	847,522
Scholarships	680,344	-	-	-	680,344	-	-	-	680,344
Supplies and materials	69,738	1,743	206	151	71,838	2,882	1,874	4,756	76,594
Training and conferences	-	-	-	-	-	681	25,598	26,279	26,279
Travel & meetings expenses	75,187	34,364	8,699	9,558	127,808	20,403	39,547	59,950	187,758
Website and communication services	25,930	31,511	1,023	7,952	66,416	23,864	48,890	72,754	139,170
Total expenses	\$ 3,487,538	\$ 1,116,086	\$ 551,466	\$ 276,448	\$ 5,431,538	\$ 552,275	\$ 523,301	\$ 1,075,576	\$ 6,507,114

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, 2021

	Program Services					Supporting Services			Total Expenses
	Strengthening and Healing Families	Engaging Communities	Creating Change: Policy and Awareness	Research and Insights	Total Program Services	Management and General	Fundraising and Membership	Total Supporting Services	
Salaries and benefits	\$ 535,288	\$ 807,524	\$ 433,059	\$ 203,981	\$ 1,979,852	\$ 257,517	\$ 272,995	\$ 530,512	\$ 2,510,364
Camp and family supplies & materials	821,457	-	-	-	821,457	-	-	-	821,457
Depreciation and amortization	6,601	9,702	5,312	2,283	23,898	1,691	3,264	4,955	28,853
Insurance	-	-	-	-	-	22,317	59	22,376	22,376
IT equipment support	11,492	16,167	7,696	3,336	38,691	3,334	4,700	8,034	46,725
Legal, bank fees and accounting	67,002	33,706	17,284	18,547	136,539	165,386	10,558	175,944	312,483
Outside consultants	39,629	30,423	123	655	70,830	1,324	22,135	23,459	94,289
Postage, mailing and other services	1,577	-	-	1	1,578	1,376	11,460	12,836	14,414
Promotional materials and advertising	27,622	68,094	-	1,300	97,016	3,222	137	3,359	100,375
Publications, dues and subscriptions	6,252	4,190	10,304	488	21,234	2,294	16,077	18,371	39,605
Rent and office maintenance	32,726	47,163	25,427	11,274	116,590	5,227	15,729	20,956	137,546
Childcare reimbursements	5,103,742	-	-	-	5,103,742	-	-	-	5,103,742
Scholarships	801,676	-	-	-	801,676	-	-	-	801,676
Supplies and materials	1,545	645	244	95	2,529	3,368	3,298	6,666	9,195
Training, conferences and meetings	-	-	-	-	-	770	10,612	11,382	11,382
Travel	29,625	2,870	356	2,816	35,667	4,383	13,372	17,755	53,422
Website and communication services	17,634	31,612	2,391	1,151	52,788	6,261	39,354	45,615	98,403
Total expenses	\$ 7,503,868	\$ 1,052,096	\$ 502,196	\$ 245,927	\$ 9,304,087	\$ 478,470	\$ 423,750	\$ 902,220	\$ 10,206,307

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, program revenue, contributors	\$ 4,867,985	\$ 9,528,419
Interest and dividend income received	115,047	87,714
Cash paid to suppliers and employees	(6,418,528)	(9,954,048)
Net Cash - Operating Activities	\$ (1,435,496)	\$ (337,915)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	\$ -	\$ (159,255)
Redemptions of certificates of deposit	53,316	159,255
Purchases of marketable securities	(1,089,663)	(937,187)
Sales of marketable securities	1,098,084	1,083,668
Purchases of property and equipment	(12,911)	(26,950)
Net Cash - Investing Activities	\$ 48,826	\$ 119,531
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	\$ 986,948	\$ -
Net Cash - Financing Activities	\$ 986,948	\$ -
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (399,722)	\$ (218,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,571,098	1,789,482
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,171,376	\$ 1,571,098

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, 2022 AND 2021

	2022	2021
Reconciliation of change in net assets to net cash - operating activities		
CHANGE IN NET ASSETS	\$ (2,508,476)	\$ (520,823)
Adjustments to reconcile change in net assets to Net Cash -		
Operating Activities:		
Depreciation and amortization	\$ 23,971	\$ 28,853
Realized loss (gain) on sales of marketable securities	(159,238)	(340,523)
Unrealized loss (gain) on marketable securities	1,108,424	(313,244)
Donated marketable securities	(14,230)	(12,154)
Deferred rent	-	(3,355)
Amortization of right-of use-asset	130,447	-
Changes in assets and liabilities		
(Increase) decrease in:		
Pledges receivable	315,961	(273,276)
Accounts receivable	-	(22)
Prepaid expenses	(8,512)	134,488
Increase (decrease) in:		
Accounts payable and accrued expenses	15,788	29,252
Accrued salaries and related taxes	5,186	110,437
Deferred revenue	(230,000)	823,459
Accrued vacation	23,079	(1,007)
Payments on operating lease liability	(137,896)	-
Total adjustments	<u>\$ 1,072,980</u>	<u>\$ 182,908</u>
Net Cash - Operating Activities	<u>\$ (1,435,496)</u>	<u>\$ (337,915)</u>
Non-cash investing and financing activities:		
Right of use asset acquired with lease liability	\$ 679,581	\$ -
Lease Liability	\$ 764,825	\$ -
Reduce right-of-use asset by deferred rent and lease incentive	\$ 85,245	\$ -
Other cash flow information:		
Donated marketable securities	\$ 14,230	\$ 12,154
Cash paid for interest	\$ 19,841	\$ -

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

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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.

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 and changes in net assets.

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, 2022 AND 2021

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

Revenue recognition (Continued)

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 and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the support is received, NMFA reports the support as net assets without donor 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, 2022 and 2021, the Association received \$81,349 and \$7,569, respectively, of in-kind donations (contributed non-financial assets). Unless otherwise noted, contributed non-financial assets did not have donor-imposed restrictions. Such activity is included in in-kind donations in the accompanying statement of activities and changes in net assets and are comprised of the following:

	2022	2021
Services	\$ 22,349	\$ 7,569
Goods	44,000	-
Hotel space	15,000	-
Total in-kind donations (contributed non-financial assets)	<u>\$ 81,349</u>	<u>\$ 7,569</u>

Contributed services recognized comprise financial services from attorneys advising the Association on various legal matters. These contributed services are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

Contributed hotel space costs recognized comprise donated hotel space for events. These contributed services are reported at the estimated fair value in the financial statements based on current rates for similar hotel space.

Contributed goods recognized comprise donated COVID tests for Operation Purple Camp. These contributed goods are reported at the estimated fair value in the financial statements based on current rates for goods.

The Association evaluates its grants and other funding to determine if grants are unconditional promises to give and thus, accounted for as contributions 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, 2022 AND 2021

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

Revenue recognition (Concluded)

At December 31, 2022 and 2021, contributions approximating \$670,000 and \$900,000 have not been recognized in the accompanying statement of activities and changes in net assets because the condition(s) on which they depend have not yet been met. For 2022, \$650,000 has a condition of sending 650 children to camps for 2023 and \$20,000 has a condition of hosting one retreat in 2023. The amounts have been received. For 2021, \$750,000 pertained to the Wounded Warrior Project, Inc. grant and had a condition of sending 2000 children to camps for 2022 and \$150,000 pertains to the USAA grant and had a condition of hosting two retreats in 2022.

The following table provides information about significant changes in deferred revenue for the years ended December 31, 2022 and 2021:

	2022	2021
Deferred revenue, beginning of year	\$ 900,000	\$ 76,541
Revenue recognized that was included in deferred revenue at the beginning of year	900,000	76,541
Deferred revenue, end of year	670,000	900,000

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 adopted Topic 606 as of January 1, 2019. The following revenue follows the guidance in Topic 606.

Membership dues, which are not refundable and represent an exchange transaction based on the value of the benefits provided, are recognized over the membership period which is the calendar year. Members dues are recognized at published prices.

Contracts, royalties and other revenue which are not refundable and represent an exchange transaction based on the value of the benefits provided, are recognized at the time the transaction occurs. Such revenue is recognized at published prices.

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. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises were received. The Association determined that no allowance was required as of December 31, 2022 and as of December 31, 2021.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

Pledges and accounts receivable and allowance for doubtful accounts (concluded)

No significant bad debt expense was recognized during the years. There was no pledges receivable due in excess of one year as of December 31, 2022.

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, 2022 and 2021, the Association had approximately \$65,585 and \$592,182 respectively, in money market funds that are included as cash equivalents in the accompanying financial statements. The Association also reported approximately \$100,567 and \$86,949 in money market funds reported as components of marketable securities, as of December 31, 2022 and 2021, respectively, given the Association's ability and intent for these funds to be reinvested within these portfolios.

Certificates of Deposit

As of December 31, 2022 and 2021, the Association had \$107,187 and \$159,757, respectively, invested in certificates of deposit held at one credit union. The certificates of deposit are reported at fair value and currently have original maturities of 18 months. The certificates outstanding as of December 31, 2022 will mature during the year ending December 31, 2023 and earn interest at annual rates of approximately 0.55%. 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 and changes in net assets.

Deferred rent

Prior to adopting ASC 842, the Association recognized 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 in 2021 for the effects of rent escalations and the difference between actual rental payments and the straight-line amortization of the lease payments.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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 reporting 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.

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, 2022 or 2021. 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.

NATIONAL MILITARY FAMILY ASSOCIATION

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

Leases

At contract inception, the Association determines if a contract is or contains a lease and whether the lease should be classified as an operating or finance lease. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the accompanying Statements of Financial Position.

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Association has elected to expense payments for short-term leases with a term of 12 months or less, as these leases are not included as lease liabilities or right of use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Association has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

The Association has elected not to separate non-lease components from lease components and instead accounts for each separate lease component and the non-lease component as a single lease component.

Recently adopted accounting pronouncement

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-12, *Leases (Topic 842)*. Accounting Standards Codification ("ASC") Topic 842 supersedes existing lease guidance, including ASC 840 - *Leases*. Among other things, ASU 2016-02 requires recognition of a right-of-use asset and liability of the future lease payments for contracts that meet the definition of a lease and requires disclosure of certain information about leasing arrangements. On July 30, 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which, among other things, allows companies to elect an option transition method to apply the new lease standard through a cumulative-effect adjustment in the period of adoption.

The Association adopted the standard on January 1, 2022, using the optional transition method and, as a result, did not adjust the prior period financial statements. All prior period amounts and disclosures are presented under ASC 840. The Association elected the package of practical expedients, which, among other things, allows the Association to carry forward the prior lease terms they previously determined under ASC 840. Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities on the Statements of Financial Position, with no cumulative impact to net assets, and did not have a material impact on the Association's change in net assets for the year ended December 31, 2022.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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Note 3. Availability and Liquidity:

The following represents the Association's financial assets at December 31, 2022 and 2021:

Financial assets at December 31:	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,171,376	\$ 1,571,098
Pledges and accounts receivable	66,337	382,298
Certificates of deposit	107,187	159,757
Marketable securities	<u>5,286,181</u>	<u>6,230,307</u>
Total financial assets	\$ 6,631,081	\$ 8,343,460
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(205,000)	(690,300)
Board designated net assets	<u>(4,286,182)</u>	<u>(6,230,307)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,139,899</u>	<u>\$ 1,422,853</u>

During the normal course of operations in the year ending December 31, 2023, the Association will receive contributions, grant revenue, sponsorships and membership dues which will be available to spend on general expenditures. The Association's Governing Board has established Board designated net assets, see Note 6, that are available to meet general expenditures.

Note 4. Property and Equipment:

Property and equipment consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 271,439	\$ 303,175
Software	<u>185,113</u>	<u>185,113</u>
Total Property and Equipment	\$ 456,552	\$ 488,288
Less, accumulated depreciation	<u>(427,644)</u>	<u>(448,320)</u>
Net Property and Equipment	<u>\$ 28,908</u>	<u>\$ 39,968</u>

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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 the 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 marketable securities 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.

NATIONAL MILITARY FAMILY ASSOCIATION

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DECEMBER 31, 2022 AND 2021

Note 5. Investments in Marketable Securities (Concluded):

The Association's certificates of deposit and marketable securities consist of the following as of December 31, 2022 and 2021:

	2022		2021	
	Cost	Market	Cost	Market
Certificates of deposit	\$ 107,187	\$ 107,187	\$ 159,757	\$ 159,757
Money market funds	100,567	100,567	86,949	86,949
Mutual bond/equity funds	4,330,073	4,531,487	4,333,589	5,387,082
Exchange traded funds	555,686	537,541	414,788	631,540
Corporate equities	35,817	116,586	37,367	124,736
Total	<u>\$ 5,129,330</u>	<u>\$ 5,393,368</u>	<u>\$ 5,032,450</u>	<u>\$ 6,390,064</u>

The following table summarizes the fair value of the Association's investments by level at December 31, 2022:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Marketable Securities	12/31/22			
Certificates of deposit	\$ 107,187	\$ -	\$ 107,187	\$ -
Money market funds	100,567	100,567	-	-
Mutual bond/equity funds	4,531,487	4,531,487	-	-
Exchange traded funds	537,541	537,541	-	-
Corporate equities	116,586	116,586	-	-
Total	<u>\$ 5,393,368</u>	<u>\$ 5,286,181</u>	<u>\$ 107,187</u>	<u>\$ -</u>

The following table summarizes the fair value of the Association's investments by level at December 31, 2021:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Marketable Securities	12/31/21			
Certificates of deposit	\$ 159,757	\$ -	\$ 159,757	\$ -
Money market funds	86,949	86,949	-	-
Mutual bond/equity funds	5,387,082	5,387,082	-	-
Exchange traded funds	631,540	631,540	-	-
Corporate equities	124,736	124,736	-	-
Total	<u>\$ 6,390,064</u>	<u>\$ 6,230,307</u>	<u>\$ 159,757</u>	<u>\$ -</u>

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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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>2022</u>	<u>2021</u>
General reserve fund	\$ 3,661,019	\$ 5,496,485
Scholarship reserve fund	<u>625,163</u>	<u>733,822</u>
	<u>\$ 4,286,182</u>	<u>\$ 6,230,307</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 2021, investment returns have increased the balance in excess of \$700,000 desired minimum balance by \$33,822. In 2022, investment returns have decreased the balance below the \$700,000 desired minimum balance by \$74,837.

On February 28, 2023, The Board retroactively released \$1,000,000 from the Board restricted portion of general reserves effective December 31, 2022. Additionally, the Board approved the drawdown of \$850,000 from the general reserve and \$150,000 from the scholarship reserves to replenish operating funds expensed to administer the pandemic childcare relief program. As of the audit report date, the funds have not been drawn down.

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Note 7. Line of Credit:

In July 2022, the Association entered into a revolving line of credit facility with Old Dominion National Bank. Advances under the credit facility bear interest at Old Dominion National Bank's prime rate plus 0.25% with a floor of 5%. The interest payments are due monthly. The maximum amount which may be advanced is \$1,000,000. Advances are collateralized by the investment reserve account. The investment account balance pledged under this line of credit held a balance of \$4,661,019 as of December 31, 2022. The amount outstanding under this line of credit was \$986,948 as of December 31, 2022. The balance is due and payable on July 25, 2023. NMFA is in the process of renewing the line of credit, once approved, the balance and payable would be due in 2024.

Note 8. Net Assets with Donor Restrictions:

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

	<u>2022</u>	<u>2021</u>
Net assets with donor restrictions:		
Educational scholarships	\$ 115,000	\$ 320,300
Operation Purple programs	<u>90,000</u>	<u>370,000</u>
	<u>\$ 205,000</u>	<u>\$ 690,300</u>

Note 9. Commitments and Contingencies:

Operating lease commitments

In August 2019, the Association entered into a eighty-nine month non-cancelable operating-type lease for office space which expires in 2027. The lease contains annual rent escalations and also provides for a lease incentive in the amount of \$21,895. Additionally, the Association is required to pay certain real estate taxes, insurance, and repairs as stipulated by the lease agreement. During 2019, the Association entered into a copier operating-type lease under a long term agreement which expires in 2024. During 2019, the Association entered into a postage machine operating-type lease under a long term agreement which expires in 2024. Rent expense for the year ended December 31, 2022 and 2021 were \$139,846 and 133,627, respectively. Lease costs are included as components of Rent and Office Maintenance on the Statement of Functional Expenses.

Cash paid for amounts included in the measurement of lease liabilities was \$137,896 for the year ended December 31, 2022. The Right-of-Use (ROU) assets obtained in exchange for operating lease liabilities totaled \$679,581 for the year ended December 31, 2022. The accumulated amortization of the ROU assets as of December 31, 2022 was \$130,447.

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Note 9. Commitments and Contingencies (Concluded):

Maturities of the lease liabilities as of December 31, 2022 are as follows for the years ending December 31:

2023	\$	151,489
2024		154,865
2025		153,495
2026		157,983
2027		<u>26,917</u>
Total	\$	644,749
Less: imputed interest		<u>(17,820)</u>
Total present value	\$	626,929
Less: lease liabilities, current portion		<u>(143,998)</u>
Total lease liabilities, net of current portion	\$	<u>482,931</u>

Other Information- Operating Leases:

Weighted-average remaining lease terms (in years)	4.1 years
Weighted-average discount rate	1.36%

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 10. 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 2022 and 2021, the Association incurred retirement plan expenses, including matching contributions and plan administrative costs, approximating \$13,308 and \$10,050, respectively.

Note 11. 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.

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Note 12. Risks and Uncertainties:

NMFA continues to feel the impact of the COVID-19 pandemic declared by the World Health Organization in early 2020. Due to the highly contagious nature of the virus, the requirement for social distancing, limits on gatherings, and restrictions on travel, planning for in-person events, including Operation Purple (camps /family retreats) require more flexibility. NMFA's camps for 2021 included both an in-person and virtual option. Both options remained available for 2022. The Association's revenue and expenses also continue to remain uncertain due to the pandemic. However, management is aware and is actively monitoring its activity. In addition, both domestic and international equity markets have experienced significant fluctuations since March 2020. The ultimate impact of the COVID-19 pandemic on the amount and likelihood of loss is unknown and depends on future developments.

Two donors contributed 33% and one donor contributed 56% of NMFA's total contributions and grants in 2022 and 2021, respectively.

Note 13. Subsequent Events:

The Association has evaluated events through May 15, 2023, the date the financial statements were available to be issued and determined that apart from the release from the general reserves fund stated at Note 6 above, there was no other event occurring subsequent to December 31, 2022 that would have a material impact on the Association's results of operations or financial position that would require adjustment to or disclosure in the financial statements.