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NATIONAL MILITARY FAMILY ASSOCIATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2020 AND 2019

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

NATIONAL MILITARY FAMILY ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Governors
National Military Family Association
Alexandria, Virginia

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, 2020 and 2019, 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, 2020 and 2019, 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.

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

Fairfax, Virginia
May 13, 2021

NATIONAL MILITARY FAMILY ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,789,482	\$ 2,099,633
Certificates of deposit	158,070	459,021
Pledges receivable, net	109,000	455,281
Accounts receivable	-	41,522
Prepaid expenses	177,813	57,462
	\$ 2,234,365	\$ 3,112,919
OTHER ASSETS		
Property and equipment , net of accumulated depreciation	\$ 41,871	\$ 57,509
Marketable securities	5,712,554	5,182,072
Deposits	21,895	21,895
	\$ 5,776,320	\$ 5,261,476
TOTAL ASSETS	\$ 8,010,685	\$ 8,374,395

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 14,815	\$ 40,672
Accrued salaries and related taxes	8,379	71,832
Accrued vacation	125,055	87,914
Deferred revenue	76,541	18,219
Deferred rent, current portion	3,355	-
	\$ 228,145	\$ 218,637
OTHER LIABILITIES		
Deferred rent, net of current portion	85,245	54,769
	\$ 313,390	\$ 273,406
NET ASSETS		
Without donor restrictions		
Board designated for general reserve fund	\$ 4,873,625	\$ 4,374,651
Board designated for scholarships	838,929	807,422
Undesignated	1,215,207	2,103,216
	\$ 6,927,761	\$ 7,285,289
Total net assets without donor restrictions		
With donor restrictions	769,534	815,700
	\$ 7,697,295	\$ 8,100,989
TOTAL LIABILITIES AND NET ASSETS	\$ 8,010,685	\$ 8,374,395

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, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions and grants	\$ 1,963,705	\$ 2,176,611	\$ 4,140,316
Membership dues	12,969	-	12,969
In-kind donations	9,776	-	9,776
Royalties and other	1,253	-	1,253
Interest and dividends	101,971	-	101,971
	Total	\$ 2,176,611	\$ 4,266,285
Net assets released from restrictions			
Scholarships and program grants	2,222,777	(2,222,777)	-
	Total Revenue	\$ (46,166)	\$ 4,266,285
EXPENSES			
Program services			
Strengthening and healing families	\$ 3,102,089	\$ -	\$ 3,102,089
Engaging communities	782,098	-	782,098
Creating change: policy and awareness	542,755	-	542,755
	Total program services	\$ -	\$ 4,426,942
Supporting services			
Management and general	\$ 322,219	\$ -	\$ 322,219
Fundraising and membership	418,770	-	418,770
	Total supporting services	\$ -	\$ 740,989
	Total Expenses	\$ -	\$ 5,167,931
Change in net assets before other gains and losses	\$ (855,480)	\$ (46,166)	\$ (901,646)
Other gains and losses			
Investment return, net	497,952	-	497,952
	CHANGE IN NET ASSETS	\$ (46,166)	\$ (403,694)
NET ASSETS, BEGINNING OF YEAR	7,285,289	815,700	8,100,989
NET ASSETS, END OF YEAR	\$ 6,927,761	\$ 769,534	\$ 7,697,295

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, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
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 \$372,422	404,372	-	404,372
Royalties and other	50,531	-	50,531
Interest and dividends	127,100	-	127,100
	\$ 2,592,511	\$ 2,033,523	\$ 4,626,034
Net assets released from restrictions			
Scholarships and program grants	2,306,193	(2,306,193)	-
	\$ 4,898,704	\$ (272,670)	\$ 4,626,034
EXPENSES			
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
	\$ 4,135,527	\$ -	\$ 4,135,527
Supporting services			
Management and general	\$ 301,502	\$ -	\$ 301,502
Fundraising and membership	292,731	-	292,731
	\$ 594,233	\$ -	\$ 594,233
	\$ 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
	\$ 922,999	\$ (272,670)	\$ 650,329
CHANGE IN NET ASSETS			
NET ASSETS, BEGINNING OF YEAR	6,362,290	1,088,370	7,450,660
NET ASSETS, END OF YEAR	\$ 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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2020

	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	\$ 750,359	\$ 567,714	\$ 454,084	\$ 1,772,157	\$ 156,272	\$ 280,825	\$ 437,097	\$ 2,209,254
Bad debt expense	-	-	-	-	-	9,952	9,952	9,952
Camp and family supplies & materials	455,982	-	-	455,982	-	-	-	455,982
Depreciation and amortization	10,910	8,884	6,804	26,598	3,359	4,237	7,596	34,194
Insurance	2,630	2,155	1,626	6,411	7,539	1,083	8,622	15,033
IT equipment support	9,031	7,476	5,682	22,189	16,083	3,204	19,287	41,476
Legal, bank fees and accounting	28,117	21,608	16,457	66,182	116,440	20,528	136,968	203,150
Outside consultants	92,672	34,702	261	127,635	104	16,182	16,286	143,921
Postage, mailing and other services	1,210	694	522	2,426	323	9,136	9,459	11,885
Promotional materials and advertising	57,105	55,725	14,194	127,024	1,842	2,019	3,861	130,885
Publications, dues and subscriptions	4,927	6,772	7,547	19,246	1,171	18,688	19,859	39,105
Rent and office maintenance	44,633	36,618	27,886	109,137	13,501	17,547	31,048	140,185
Scholarships	1,608,539	-	-	1,608,539	-	-	-	1,608,539
Supplies and materials	9,378	1,102	109	10,589	1,059	69	1,128	11,717
Training, conferences and meetings	720	-	3,000	3,720	-	-	-	3,720
Travel	4,975	5,485	487	10,947	1,466	2,628	4,094	15,041
Website and communication services	20,901	33,163	4,096	58,160	3,060	32,672	35,732	93,892
Total expenses	\$ 3,102,089	\$ 782,098	\$ 542,755	\$ 4,426,942	\$ 322,219	\$ 418,770	\$ 740,989	\$ 5,167,931

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

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, program revenue, contributors	\$ 4,601,146	\$ 4,158,920
Interest and dividend income received	101,971	127,100
Cash paid to suppliers and employees	(5,303,333)	(4,730,045)
Net Cash - Operating Activities	\$ (600,216)	\$ (444,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	\$ (158,070)	\$ (459,021)
Redemptions of certificates of deposit	459,021	448,510
Purchases of marketable securities	(623,737)	(609,736)
Sales of marketable securities	631,408	660,876
Purchases of property and equipment	(18,557)	(14,863)
Net Cash - Investing Activities	\$ 290,065	\$ 25,766
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (310,151)	\$ (418,259)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,099,633	2,517,892
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,789,482	\$ 2,099,633

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, 2020 AND 2019

	2020	2019
Reconciliation of change in net assets to net cash - operating activities		
CHANGE IN NET ASSETS	\$ (403,694)	\$ 650,329
Adjustments to reconcile change in net assets to Net Cash -		
Operating Activities:		
Depreciation and amortization	\$ 34,194	\$ 32,898
Realized loss (gain) on sales of marketable securities	(138,473)	(103,742)
Unrealized loss (gain) on marketable securities	(390,386)	(688,239)
Donated marketable securities	(9,293)	(18,710)
Deferred rent	33,831	35,426
Loss on disposal of fixed asset	-	758
Changes in assets and liabilities		
(Increase) decrease in:		
Pledges receivable	346,281	(26,774)
Accounts receivable	41,522	(41,522)
Prepaid expenses	(120,351)	(17,692)
Deposits	-	(9,665)
Increase (decrease) in:		
Accounts payable and accrued expenses	(25,857)	9,043
Accrued salaries and related taxes	(63,453)	12,850
Deferred revenue	58,322	(253,008)
Accrued vacation	37,141	(25,977)
	\$ (196,522)	\$ (1,094,354)
Total adjustments		
	\$ (600,216)	\$ (444,025)
Net Cash - Operating Activities		
Non-cash investing and financing activities		
Donated marketable securities	<u>\$ 9,293</u>	<u>\$ 18,710</u>

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

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019, the Association received \$9,776 and \$23,103, 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, 2020, approximately \$76,541 received under the terms of the Army Emergency Relief (AER) Grant has not been recognized in the accompanying statement of activities because the condition(s) on which they depend have not been met. As such, \$76,541 is recorded as deferred revenue and will be recognized as childcare reimbursements are awarded and the milestones required by the grant are accomplished.

At December 31, 2020 and 2019, contributions approximating \$378,000 and \$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. For 2020, \$378,000 pertains to the AER grant and \$18,219 has a condition of social media promotion and \$750,000 has a condition of sending 1600 children to the camps for 2019. These amounts have not been received and so no deferred revenue or contribution revenue has been recognized as of December 31, 2020 and 2019, respectively.

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.

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.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

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. The Association determined that an allowance for doubtful accounts of \$7,702 was required as of December 31, 2020 and that no allowance was required as of December 31, 2019. No significant bad debt expense was recognized during the years.

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, 2020 and 2019, the Association had approximately \$474,908 and \$605,667, respectively, in money market funds that are included as cash equivalents in the accompanying financial statements. The Association also reported approximately \$448,103 and \$131,133 in money market funds reported as components of marketable securities, as of December 31, 2020 and 2019, respectively, given the Association's ability and intent for these funds to be reinvested within these portfolios.

Certificates of Deposit

As of December 31, 2020 and 2019, the Association had \$158,070 and \$459,021, 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 outstanding as of December 31, 2020 will mature during the year ending December 31, 2021, and earn interest at annual rates of approximately 1.75-2.25%. 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.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

Deferred revenue

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.

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.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

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, 2020 or 2019. 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.

Note 3. Availability and Liquidity:

The following represents the Association's financial assets at December 31, 2020 and 2019:

Financial assets at December 31:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,789,483	\$ 2,099,633
Pledges and accounts receivable	109,000	496,803
Marketable securities	<u>5,712,554</u>	<u>5,182,072</u>
Total financial assets	\$ 7,611,037	\$7,778,508
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(769,534)</u>	<u>(815,700)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$6,841,503</u>	<u>\$6,962,808</u>

During the normal course of operations in the year ending December 31, 2021, 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 and are included in the marketable securities balance above.

NATIONAL MILITARY FAMILY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 4. Property and Equipment:

Property and equipment consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 281,349	\$ 264,332
Software	<u>185,113</u>	<u>183,574</u>
Total Property and Equipment	\$ 466,462	\$ 447,906
Less, accumulated depreciation	<u>(424,591)</u>	<u>(390,397)</u>
Net Property and Equipment	<u>\$ 41,871</u>	<u>\$ 57,509</u>

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 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.

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Note 5. Investments in Marketable Securities (Concluded):

The Association's certificates of deposit and marketable securities consist of the following as of December 31, 2020 and 2019:

	2020		2019	
	Cost	Market	Cost	Market
Certificates of deposit	\$ 158,070	\$ 158,070	\$ 459,021	\$ 459,021
Money market funds	448,102	448,102	131,133	131,133
Mutual bond/equity funds	3,995,473	4,814,755	3,970,117	4,579,462
Exchange traded funds	202,574	362,977	276,864	386,766
Corporate equities	35,236	86,720	35,236	84,711
Total	\$ 4,839,455	\$ 5,870,624	\$ 4,872,371	\$ 5,641,093

The following table summarizes the fair value of the Association's investments by level at December 31, 2020:

	12/31/20	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				
Certificates of deposit	\$ 158,070	\$ -	\$ 158,070	\$ -
Money market funds	448,102	448,102	-	-
Mutual bond/equity funds	4,814,755	4,814,755	-	-
Exchange traded funds	362,977	362,977	-	-
Corporate equities	86,720	86,720	-	-
Total	\$ 5,870,624	\$ 5,712,554	\$ 158,070	\$ -

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

	12/31/19	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				
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	\$ 5,641,093	\$ 5,182,072	\$ 459,021	\$ -

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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>2020</u>	<u>2019</u>
General reserve fund	\$ 4,873,625	\$ 4,374,651
Scholarship reserve fund	<u>838,929</u>	<u>807,442</u>
	<u>\$ 5,712,554</u>	<u>\$ 5,182,073</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 2019, the fund balance was above the \$700,000 goal. In 2020, investment returns have increased the balance in excess of \$700,000 desired minimum balance by \$138,929.

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Note 7. Net Assets with Donor Restrictions:

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

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Educational scholarships	\$ 649,534	\$ 506,700
Operation Purple programs	<u>120,000</u>	<u>309,000</u>
	<u>\$ 769,534</u>	<u>\$ 815,700</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, 2020.

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. As of December 31, 2020 and 2019 the deferred rent liability was \$70,395 and \$33,613, respectively. As of December 31, 2020 and 2019 rent expense was approximately \$140,000, and \$141,000, respectively. The lease also provided for a lease incentive which is also amortized over the term of the lease. The unamortized lease incentive balance is \$18,205 and \$21,157 as of December 31, 2020 and 2019, respectively.

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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:

2021	\$	143,201
2022		147,296
2023		151,489
2024		153,918
2025		153,495
Thereafter		<u>184,900</u>
Total	\$	<u>934,299</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 2020 and 2019, the Association incurred retirement plan expenses, including matching contributions and plan administrative costs, approximating \$11,700 and \$10,950, 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.

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Note 11. 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. Our revenue and expenses also continue to remain uncertain, due to the pandemic. 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.

Note 12. Subsequent Events:

The Association has evaluated events through May 13, 2021, the date the financial statements were available to be issued, and determined that there was no event occurring subsequent to December 31, 2020 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.