

The Army Historical Foundation, Inc.

Financial Report
December 31, 2021

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Balance sheet	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-12



RSM US LLP

Independent Auditor's Report

Finance Committee
The Army Historical Foundation, Inc.

Opinion

We have audited the financial statements of The Army Historical Foundation, Inc. (the Foundation), which comprise the balance sheet as of December 31, 2021, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's 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 auditor's 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. 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 the Foundation'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 the Foundation'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.

Report on Summarized Comparative Information

We have previously audited The Army Historical Foundation, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
September 13, 2022

The Army Historical Foundation, Inc.

Balance Sheet

December 31, 2021

(With Comparative Totals for 2020)

	2021	2020
Assets		
Cash	\$ 6,820,104	\$ 1,337,960
Restricted cash	4,695,707	2,845,926
Promises to give	4,666,438	4,829,713
Bequest receivable	101,153	103,999
Prepaid expenses, deposits and other	27,127	184,589
Inventory	139,265	108,047
Property and equipment, net	37,537	51,060
	<u>\$ 16,487,331</u>	<u>\$ 9,461,294</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 259,202	\$ 397,776
Accrued expenses and other liabilities	419,539	605,782
Note payable	27,120,858	28,767,247
Total liabilities	<u>27,799,599</u>	<u>29,770,805</u>
Commitments and contingency (Note 8)		
Net assets (deficit):		
Without donor restrictions	(20,929,927)	(20,387,674)
With donor restrictions	9,617,659	78,163
Total net assets	<u>(11,312,268)</u>	<u>(20,309,511)</u>
	<u>\$ 16,487,331</u>	<u>\$ 9,461,294</u>

See notes to financial statements.

The Army Historical Foundation, Inc.

Statement of Activities
Year Ended December 31, 2021
(With Comparative Totals for 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions and grants	\$ 7,359,543	\$ 9,666,438	\$ 17,025,981	\$ 10,711,095
In-kind contributions	442,293	-	442,293	908,449
Membership contributions	111,909	-	111,909	157,742
Commercial activities	335,335	-	335,335	210,227
Investment income	10,246	-	10,246	4,486
Net assets released from restrictions	126,942	(126,942)	-	-
Total support and revenue	8,386,268	9,539,496	17,925,764	11,991,999
Expenses:				
Program services:				
National Museum programs	3,156,425	-	3,156,425	134,035,906
Historical and educational programs	276,128	-	276,128	220,209
Membership	16,526	-	16,526	40,513
Total program services	3,449,079	-	3,449,079	134,296,628
Support services:				
Fundraising—National Museum	4,328,293	-	4,328,293	3,282,561
General and administrative	1,151,149	-	1,151,149	996,127
Total expenses	8,928,521	-	8,928,521	138,575,316
Change in net assets	(542,253)	9,539,496	8,997,243	(126,583,317)
Net assets (deficit):				
Beginning	(20,387,674)	78,163	(20,309,511)	106,273,806
Ending	\$ (20,929,927)	\$ 9,617,659	\$ (11,312,268)	\$ (20,309,511)

See notes to financial statements.

The Army Historical Foundation, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2021
(With Comparative Totals for 2020)**

	2021							2020 Total
	Program Services			Supporting Services				
	National Museum Programs	Historical and Educational Programs	Membership	Fundraising		General and Administrative	Total	
				National Museum				
Personnel	\$ 342,902	\$ 227,397	\$ 375	\$ 1,390,389	\$ 596,038	\$ 2,557,101	\$ 2,568,211	
Marketing, conventions and administration	4,127	-	3,131	2,365,632	1,519	2,374,409	2,447,287	
Office expense	2,693	890	-	6,091	204,991	214,665	162,354	
Website/newsletter	-	41,341	13,020	207,231	-	261,592	200,146	
Public relations/media outreach	-	-	-	201,416	-	201,416	158,677	
Professional services	-	-	-	63,000	217,281	280,281	203,023	
Cost of goods sold	5,886	-	-	92,616	-	98,502	146,473	
Financial fees and interest	109	-	-	-	69,850	69,959	76,129	
Miscellaneous program support	-	-	-	-	17,424	17,424	18,741	
Grants and awards	-	6,500	-	-	1,000	7,500	4,500	
Corporate fees	-	-	-	-	10,380	10,380	5,265	
Insurance	-	-	-	-	31,989	31,989	45,654	
Travel	-	-	-	1,918	677	2,595	19,899	
Museum operations	275,112	-	-	-	-	275,112	265,792	
Other costs	-	-	-	-	-	-	5,950	
Interest expense	1,816,592	-	-	-	-	1,816,592	-	
Museum transfer	-	-	-	-	-	-	132,247,215	
Post museum transfer costs	709,004	-	-	-	-	709,004	-	
Total expenses	\$ 3,156,425	\$ 276,128	\$ 16,526	\$ 4,328,293	\$ 1,151,149	\$ 8,928,521	\$ 138,575,316	

See notes to financial statements.

The Army Historical Foundation, Inc.

**Statement of Cash Flows
Year Ended December 31, 2021
(With Comparative Totals for 2020)**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 8,997,243	\$ (126,583,317)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,523	17,821
Increase (decrease) in discounts on long-term promises to give Museum transfer	164,847	(72,480)
	-	126,887,626
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	(1,572)	1,630,788
Bequest receivable	2,846	52,314
Prepaid expenses, deposits and other	157,462	(152,904)
Inventory	(31,218)	151
Increase (decrease) in:		
Accounts payable	(138,574)	(135,457)
Accrued expenses and other liabilities	(186,243)	366,199
Net cash provided by operating activities	8,978,314	2,010,741
Cash flows from investing activities:		
Purchase of property and equipment	-	(347,641)
Net cash used in investing activities	-	(347,641)
Cash flows from financing activities:		
Principal payments on note payable	(1,646,389)	686,613
Net cash (used in) provided by financing activities	(1,646,389)	686,613
Net increase in cash and restricted cash	7,331,925	2,349,713
Cash and restricted cash:		
Beginning	4,183,886	1,834,173
Ending	\$ 11,515,811	\$ 4,183,886
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,816,592	\$ 2,621,111
Amount of development costs included in the Museum property transferred to the Army	\$ -	\$ 126,539,985

See notes to financial statements.

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Army Historical Foundation, Inc. (the Foundation) was incorporated on May 16, 1983, under the laws of the Commonwealth of Virginia. The purpose of the Foundation is to supplement existing educational and training programs that promote a deeper understanding of the historical contribution of the U.S. Army; to support the furnishing and refurbishing of Army Historic Buildings; to promote and support scholarly research into the U.S. Army's past; to assist in the preservation, perpetuation, publication or display of manuscripts, books, relics, pictures and all other things and information pertinent to the history and tradition of the U.S. Army; and to support the creation of a National Museum of the United States Army (National Army Museum).

On July 1, 2015, the Foundation entered into an agreement with the Department of the Army (Army) to build the National Army Museum on Fort Belvoir to honor the American Soldier's service, tell their stories and educate visitors as to the contributions of the Army to the nation, in a manner that will engage and inspire the American people. The Foundation has been providing the funds necessary to construct the museum. The museum conveyed to the Army in January 2020.

A summary of the Foundation's significant accounting policies follows:

Basis of presentation: The financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under the Codification, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: those without donor restrictions and those with donor restrictions.

Restricted cash: The Foundation has a restricted account agreement with a bank to secure funds to satisfy the terms of the notes payable agreement with the nonprofit organization. See Note 5. At December 31, 2021, the related restricted cash balance was \$4,695,907.

Financial risk: The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Promises to give: Unconditional contributions are recognized as support in the period acknowledged. Conditional promises to give are only recognized when the conditions on which they depend are substantially met. Unconditional promises to give that will not be collected within one year have been discounted at a rate commensurate with the risks involved less an estimate made for doubtful promises to give based on a review of all outstanding promises to give on an annual basis. Management determines the allowance for doubtful promises to give by using the historical experience applied to an aging of promises to give. Promises to give are written off when deemed uncollectible. Promises to give are deemed fully collectible at December 31, 2021.

Inventory: Inventory is stated at the lower of cost or net realizable value with costs being valued using the average costs method of inventory valuation. Management believes all inventories to be readily marketable and a provision for obsolescence was not required at December 31, 2021.

Property and equipment: Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. The Foundation capitalizes all property and equipment with a cost of \$10,000 or more.

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition: All unconditional donor-restricted contributions and similar grants are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a 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 statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period received.

Program and event fees are recognized when services are performed. Income from the sale of inventory is recognized upon the completion of a sale and is reported in commercial activities in the statement of activities.

Donated services: Donated services that create or enhance non-financial assets or that require specialized skills provided by individuals possessing those skills, which would typically need to be purchased if not provided by donation, are recorded at fair value in the period provided. For the year ended December 31, 2021, the Foundation had donated legal services and consulting fees of \$352,293 and \$90,000, respectively, which were expensed to post museum transfer costs and professional fees, respectively.

Functional allocation of expenses: The costs of providing for various programs and supporting services have been summarized on the functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefited. Salary and benefit costs are allocated based on estimates of time and efforts. Occupancy, printing, publications, supplies, depreciation, conference meeting costs, insurance and other operating costs are allocated based on salary expense.

Income taxes: The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contributions deductions under Section 170(b)(1)(A).

Management evaluated the Foundation's tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements. Generally, due to the three-year statute of limitations, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2018.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of the adoption of this guidance on the financial statements.

In July 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendment is intended to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements in presentation and disclosure requirements. Under the new ASU, not-for-profit entities will be required to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU will be effective for the Foundation for the year ending December 31, 2022. The adoption of ASU 2020-07 is not expected to have a significant impact on the Foundation's financial statements.

Subsequent events: The Association has evaluated subsequent events for potential required disclosure through September 13, 2022, the date on which the financial statements were available to be issued.

Note 2. Promises to Give

Unconditional promises to give consist of the following at December 31, 2021:

General	\$ 5,268,988
Life members	350
	<u>5,269,338</u>
Discount (3%)	(602,900)
	<u>\$ 4,666,438</u>
Amounts due in:	
Less than one year	\$ 23,375
One year to five years	3,374,680
Greater than five years	1,871,283
	<u>\$ 5,269,338</u>

Note 3. Bequest Receivable

The Foundation was a beneficiary of a bequest in 2014. The funds will be collected in the form of a note receivable on date of maturity. As of December 31, 2021, the Foundation's bequest receivable was \$101,153. The funds will incur 3% of interest on the principal balance payable with interest only payments each month until maturity. The note matures in December 2024.

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2021, and depreciation expense for the year ended December 31, 2021, consist of the following:

Asset Category	Cost	Accumulated Depreciation	Net	Depreciation Expense
Computer equipment	\$ 122,558	\$ 89,342	\$ 33,216	\$ 11,977
Office equipment	73,855	69,534	4,321	1,546
	<u>\$ 196,413</u>	<u>\$ 158,876</u>	<u>\$ 37,537</u>	<u>\$ 13,523</u>

Note 5. Note Payable

During the year ended December 31, 2020, the Foundation entered into a modification of its existing loan to defer interest only payments for the period July 1, 2020 through June 1, 2021, and add them to the principal to increase the loan total. At December 31, 2021, the balance of the loan was \$27,120,858.

The note bears 7% interest and is collateralized by restricted cash accounts presented on the accompanying balance sheet, and includes collections on pledges and all gross sales generated from the operation of the National Army Museum. Monthly interest only payments are payable January 1, 2021 through June 1, 2021. Principal and interest payments began July 1, 2021, and are amortized until the last payment due on May 1, 2028. The loan is to mature on June 30, 2028, with the final balance due.

Interest expense on this loan for the year ended December 31, 2021, was \$1,816,592.

Future minimum payments for the note payable are as follows:

Years ending December 31:	
2022	\$ 3,470,266
2023	3,721,132
2024	3,990,133
2025	4,278,580
2026	4,587,878
Thereafter	7,072,869
	<u>\$ 27,120,858</u>

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2021, and changes in net assets with donor restrictions during the year ended December 31, 2021, consist of donor-restricted funds to be used for garden and plaza projects, as follows:

	Balance December 31, 2020	Additions	Releases	Balance December 31, 2021
Life member dues	\$ 78,163	\$ -	\$ 78,163	\$ -
Promises to give	-	4,666,438	-	4,666,438
Warrior Field & Plaza and Memorial Garden	-	5,000,000	48,779	4,951,221
	<u>\$ 78,163</u>	<u>\$ 9,666,438</u>	<u>\$ 126,942</u>	<u>\$ 9,617,659</u>

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 7. Retirement Plan

The Foundation has a Simple IRA retirement plan available to all its employees except for those under collective bargaining agreements. Employees are eligible to join at the start of their employment. The Foundation makes matching contributions up to 3% of annual compensation, and the contributions are fully vested when made. Total retirement plan expense for 2021 was \$75,154.

Note 8. Commitments and Contingency

Lease: On July 21, 2016, the Foundation executed a 50-year lease agreement with the Department of the Army (Army) for the land at Fort Belvoir to be utilized for construction of the museum and related facilities. Rent was due annually of \$1 until April 1, 2023, whereby 10% of the Foundation's revenue from retail operations from the museum would be paid quarterly to the Army. On January 15, 2020, a revised lease agreement was executed to start on January 14, 2020, for 50 years. Rent is due annually for \$1 for 2020 and 2021. Starting in 2022, rent is set for 10% of the Foundation's revenue from retail operations from 2022 from the museum paid annually to the Army due February 1 of the next year. The percentage of gross sales that will be paid will be reevaluated every five years.

Contract: In December 2021, the Foundation entered into a contract to complete the Warriors' Plaza landscaping around the museum. The expected cost of the project is \$4.7 million. The Foundation received a \$5 million grant from Commonwealth of Virginia to complete this project. The remaining funds are to be kept and used on exterior projects around the museum. Construction is expected to be completed in May 2023.

COVID-19: In 2020, the global pandemic created substantial volatility in financial markets and the economy. While the Foundation has mitigated the financial impact on its business, it is unknown how long these conditions will last. Accordingly, there could be negative impact to operations, the extent to which will depend on future developments that are uncertain and cannot be predicted and, as such, cannot be determined.

Note 9. Liquidity of Financial Assets

The Foundation regularly monitors liquidity of financial assets required to meet its annual operating needs and other contractual commitments.

The following table reflects the Foundation's financial assets as of December 31, 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available include net assets with donor restrictions not expected to be met within a year.

Financial assets at year-end:	
Cash	\$ 6,820,104
Restricted cash	4,695,707
Promises to give	4,666,438
Bequest receivable	101,153
Total financial assets	<u>16,283,402</u>
Less amounts not available to be used within one year:	
Restricted cash	4,695,707
Bequest receivable	101,153
Net assets with time and purpose restrictions	<u>9,617,659</u>
	<u>14,414,519</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,868,883</u>

The Army Historical Foundation, Inc.

Notes to Financial Statements

Note 10. Subsequent Events

In January 2022, the Foundation entered into a contract for a new Customer Relationship Management (CRM) database system. The contract price includes implementation of \$657,321 and annual subscription for services of \$354,960 per year for four years.