

**ARMY WAR COLLEGE
FOUNDATION, INC.**

FINANCIAL REPORT

JULY 31, 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1 - 2
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FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 22

SUPPLEMENTARY INFORMATION	
Schedules of Functional Expenses by Program	23 - 26

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Army War College Foundation, Inc.
Carlisle, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Army War College Foundation, Inc., which comprise the statements of financial position as of July 31, 2020 and 2019, and the related statements of activities and cash flows 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

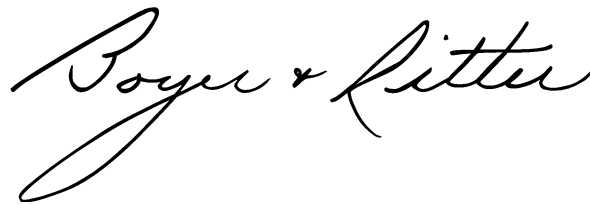
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Army War College Foundation, Inc., as of July 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
January 29, 2021

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
July 31, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 905,711	\$ 1,102,659
Receivables		
Contributions	24,208	102,300
Trade	724	54
Total receivables	<u>24,932</u>	<u>102,354</u>
Prepaid expenses	13,434	105,846
Inventories	257,819	239,196
Total current assets	<u>1,201,896</u>	<u>1,550,055</u>
Furniture and Equipment	194,309	188,399
Less accumulated depreciation	<u>(124,706)</u>	<u>(110,362)</u>
	<u>69,603</u>	<u>78,037</u>
Investments	16,818,003	15,973,704
Self-insured unemployment deposit	<u>595</u>	<u>595</u>
Total assets	<u>\$ 18,090,097</u>	<u>\$ 17,602,391</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 416,801	\$ 425,858
Accrued payroll	1,278	2,804
Sales tax payable	216	187
Deferred revenue	-	508,200
Total current liabilities	<u>418,295</u>	<u>937,049</u>
Net Assets		
Without donor restrictions	13,445,561	12,444,518
With donor restrictions	<u>4,226,241</u>	<u>4,220,824</u>
Total net assets	<u>17,671,802</u>	<u>16,665,342</u>
Total liabilities and net assets	<u>\$ 18,090,097</u>	<u>\$ 17,602,391</u>

See Notes to Financial Statements.

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
Years Ended July 31, 2020 and 2019

	Total	
	2020	2019
Revenue, Gains and Other Support		
Contributions	\$ 1,406,712	\$ 1,452,254
Membership income	96,599	144,733
SLSR program support	655,590	883,350
Sutler sales	137,539	233,421
Royalties	18,566	15,022
Miscellaneous income	2,269	2,741
Net assets released from restrictions	-	-
Total revenue, gains and other support	2,317,275	2,731,521
Expenses and Losses		
Program services	1,779,785	1,800,944
General and administrative	213,011	224,751
Fundraising	277,118	256,338
Total functional expenses	2,269,914	2,282,033
Changes in net assets before investment return	47,361	449,488
Investment Return, net	959,099	691,727
Changes in net assets	1,006,460	1,141,215
Net Assets:		
Beginning	16,665,342	15,524,127
Ending	\$ 17,671,802	\$ 16,665,342

See Notes to Financial Statements.

Without Donor Restrictions		With Donor Restrictions	
2020	2019	2020	2019
\$ 996,208	\$ 1,101,107	\$ 410,504	\$ 351,147
96,599	144,733	-	-
655,590	883,350	-	-
137,539	233,421	-	-
18,566	15,022	-	-
2,269	2,741	-	-
601,532	349,732	(601,532)	(349,732)
2,508,303	2,730,106	(191,028)	1,415
1,779,785	1,800,944	-	-
213,011	224,751	-	-
277,118	256,338	-	-
2,269,914	2,282,033	-	-
238,389	448,073	(191,028)	1,415
762,654	502,964	196,445	188,763
1,001,043	951,037	5,417	190,178
12,444,518	11,493,481	4,220,824	4,030,646
\$ 13,445,561	\$ 12,444,518	\$ 4,226,241	\$ 4,220,824

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 194,955	\$ 133,840	\$ 195,211	\$ 524,006
Payroll taxes	15,191	9,929	15,084	40,204
Benefits - IRA Match	4,342	2,533	5,259	12,134
Depreciation	9,324	3,586	1,434	14,344
Legal and accounting	-	27,326	-	27,326
Bank, credit card and PayPal fees	7,870	6,164	-	14,034
Dues and subscriptions	-	1,518	-	1,518
Board member support	-	10,730	-	10,730
Insurance	-	4,650	-	4,650
Leased equipment	-	3,661	-	3,661
Travel	-	30	3,899	3,929
Meals and entertainment	-	-	502	502
Stationary and supplies	5,233	698	1,047	6,978
Magazine	52,794	3,300	9,899	65,993
Postage and shipping	3,222	460	920	4,602
Telephone and internet	2,239	933	560	3,732
Automation	12,174	3,478	1,739	17,391
Sutler supplies	2,973	-	-	2,973
Sutler postage and merchandise shipping	5,593	-	-	5,593
Gifts-In-Kind to AWC	4,590	-	-	4,590
DeSerio Chair of Strategic Intelligence	360,431	-	-	360,431
Chair of War Studies	100	-	-	100
Post doctoral fellows	284,000	-	-	284,000
Advanced Strategic Arts Program (ASAP)	31,500	-	-	31,500
Industry Day	5,055	-	-	5,055
Commandant Reading Program	2,000	-	-	2,000

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ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended July 31, 2020

	Program Services	Management and General	Fundraising	Total
New academic building	272,798	-	-	272,798
Student Writing and Speaking Awards	10,071	-	-	10,071
Honoraria and Dean's Programs	80,000	-	-	80,000
Faculty Development	3,500	-	-	3,500
Military Family Program	6,775	-	-	6,775
Managed accounts	250	-	-	250
Special events support	2,231	-	-	2,231
Outstanding Alum Program	6,288	-	-	6,288
Special Memorial Fund	6,000	-	-	6,000
SLDP and AWCF Outreach	240,061	-	-	240,061
Corporate development	-	-	520	520
Reunions and receptions	22,025	-	15,879	37,904
Press activities, royalties and production	1,394	-	-	1,394
Scholarships	20,500	-	-	20,500
Foundation support	3,774	-	3,678	7,452
Mailouts	-	-	21,487	21,487
Fundraising, advertising and marketing	461	175	-	636
Alumnus research	554	-	-	554
Miscellaneous	2,607	-	-	2,607
Defective merchandise write-off	111	-	-	111
Cost of goods sold and raffle costs	96,799	-	-	96,799
	<u>\$1,779,785</u>	<u>\$ 213,011</u>	<u>\$ 277,118</u>	<u>\$2,269,914</u>

See Notes to Financial Statements.

ARMY WAR COLLEGE FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2019**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 187,235	\$ 128,264	\$ 177,088	\$ 492,587
Payroll taxes	14,650	10,007	13,047	37,704
Benefits - IRA Match	3,576	1,954	4,267	9,797
Depreciation	7,354	2,829	1,132	11,315
Legal and accounting	-	25,506	-	25,506
Bank, credit card and PayPal fees	12,093	8,425	-	20,518
Dues and subscriptions	-	938	-	938
Board member support	-	28,188	-	28,188
Insurance	-	4,748	-	4,748
Leased equipment	-	3,485	-	3,485
Travel	1,105	991	5,240	7,336
Meals and entertainment	-	-	633	633
Stationary and supplies	7,595	1,013	1,519	10,127
Magazine	53,424	3,339	10,017	66,780
Postage and shipping	3,029	433	866	4,328
Telephone and internet	2,426	1,011	607	4,044
Automation	10,099	2,885	1,443	14,427
Sutler supplies	4,653	-	-	4,653
Sutler postage and merchandise shipping	4,781	-	-	4,781
Gifts-In-Kind to AWC	6,541	-	-	6,541
DeSerio Chair of Strategic Intelligence	319	-	-	319
Chair of Strategic Leadership	200,000	-	-	200,000
Chair of War Studies	200,000	-	-	200,000
Post doctoral fellows	100,000	-	-	100,000
Applied communications lab	150,000	-	-	150,000
Advanced Strategic Arts Program (ASAP)	25,000	-	-	25,000
Industry Day	88	-	-	88
Commandant Reading Program	2,000	-	-	2,000
Lecture Series	11,306	-	-	11,306

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ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended July 31, 2019

	Program Services	Management and General	Fundraising	Total
New academic building	12,982	-	-	12,982
Student Writing and Speaking Awards	4,109	-	-	4,109
Honoraria and Dean's Programs	110,105	-	-	110,105
Faculty Development	3,150	-	-	3,150
International Fellows (IF)	89,456	-	-	89,456
Managed accounts	325	-	-	325
Special events support	4,019	-	-	4,019
Outstanding Alum Program	4,913	-	-	4,913
Special Memorial Fund	6,750	-	-	6,750
SLDP and AWCF Outreach	281,567	-	-	281,567
Protocol services	50,000	-	-	50,000
Corporate development	-	-	7,637	7,637
Reunions and receptions	29,484	-	11,393	40,877
Press activities, royalties and production	5,521	-	-	5,521
Awards and recognitions	25,000	-	-	25,000
Foundation support	8,563	-	4,988	13,551
Mailouts	-	-	16,461	16,461
Fundraising, advertising and marketing	543	175	-	718
Alumnus research	516	-	-	516
Miscellaneous	3,502	560	-	4,062
Defective merchandise write-off	1,012	-	-	1,012
Cost of goods sold and raffle costs	152,153	-	-	152,153
	<u>\$1,800,944</u>	<u>\$ 224,751</u>	<u>\$ 256,338</u>	<u>\$2,282,033</u>

See Notes to Financial Statements.

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
Years Ended July 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Changes in net assets	\$ 1,006,460	\$ 1,141,215
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	14,344	11,315
Net realized and unrealized gains on investments	(524,138)	(252,018)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	77,422	(78,877)
Prepaid expenses	92,412	(92,601)
Inventories	(18,623)	(6,139)
(Decrease) increase in:		
Accounts and sales tax payable	(9,028)	414,072
Accrued payroll	(1,526)	(266)
Deferred revenue	(508,200)	282,607
Net cash provided by operating activities	129,123	1,419,308
Cash Flows From Investing Activities		
Purchase of furniture and equipment	(5,910)	-
Purchases of investments	(549,239)	(4,755,047)
Proceeds from sale of investments	229,078	3,948,592
Net cash used in investing activities	(326,071)	(806,455)
Net change in cash and cash equivalents	(196,948)	612,853
Cash and Cash Equivalents:		
Beginning	1,102,659	489,806
Ending	\$ 905,711	\$ 1,102,659

See Notes to Financial Statements.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies

Nature of Activity: The Foundation engages in charitable and educational endeavors solely for the benefit of the U.S. Army War College and its respective purposes, programs and graduates. The Foundation's support provides the *Margin of Excellence* that enables the College to better educate and develop leaders for service at the strategic level while advancing knowledge in the global application of Landpower. The Foundation enriches the College's academic programs, supports research and outreach, promotes fraternity among alumni, and encourages excellence in faculty and students across the broad spectrum of the College. The education of future strategic leaders of the Armed Forces and other civilian agencies within our government is critical in preparing these leaders for the complex issues of national security and strategy ahead.

Basis of Accounting: The Foundation's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue is recognized when earned, and expenses when incurred.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, 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.

Restricted and Unrestricted Revenue and Support: Contributions received are recorded depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with 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 restrictions are reclassified to net assets without restrictions and reported in the Statement of Activities as net assets released from restrictions.

The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, the Foundation considers all short-term investments purchased with a maturity of one year or less to be cash equivalents.

Investments: Investments in marketable debt and equity securities are reported at their fair values based on quoted market prices in established markets. Investment income or loss, including realized and unrealized gains and losses on investments, are included in the Statements of Activities.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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

Inventories: Inventories are valued at cost based primarily on the first-in, first-out method.

Deferred Revenue: The Foundation recognizes revenues as earned. Money received in advance of when expense is incurred is recorded as a liability under "Deferred revenue."

Depreciation: Furniture and equipment are recorded at cost. Depreciation is provided on the straight-line method over estimated useful lives of five to seven years.

Advertising: The Foundation's policy is to expense advertising costs as incurred.

Donated Services and Property: Services and supplies donated to the Foundation are recorded at their estimated, fair market values when received. During the year, the Foundation received the following donated services and property:

	2020	2019
Contributions		
Donated tickets	\$ -	\$ 19,306
Donated goods	59,373	11,433
	<u>\$ 59,373</u>	<u>\$ 30,739</u>
Expenses		
Programs services	<u>\$ 59,373</u>	<u>\$ 30,739</u>

Royalties: The Foundation receives royalties from various publications, the authors of which have designated that the royalties accrue to the Foundation's benefit.

Income Taxes: The Internal Revenue Service has determined that the Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Management has analyzed the tax positions taken by the Foundation, and has concluded that as of July 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure. Examples of tax positions taken at the entity level include the continuing validity of the Foundation's exempt-Foundation status, the potential filing requirement for unrelated business income and other tax positions that could result in income tax liabilities to the Foundation upon examination by taxing authorities.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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

Adoption of New FASB Accounting Standard Update: In 2020, the Foundation adopted the Financial Accounting Standards Board (FASB) ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Recent Accounting Pronouncements: In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing, revenue recognition guidance in U.S. GAAP, including industry-specific guidance. More judgement and estimates may be required in the revenue recognition process when compared to existing U.S. GAAP, including identifying performance obligations in the contract, estimating variable consideration, and allocating transaction prices to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2019; implementation will be achieved through application of either a full-retrospective or retrospective-with-cumulative-effect transition method. Management has not yet selected a transition method and is currently evaluating the effect that the standard will have on the Foundation's financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). The most significant change in the new lease guidance requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which these assets and liabilities are not recorded, and lease payments are generally recognized over the lease term on a straight-line basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under legacy accounting principles generally accepted in the United States of America. For all entities other than public-business enterprises, this standard is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. Management is currently evaluating the effects that this standard will have on the Foundation's financial statements.

Subsequent Events: In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 29, 2021, the date the financial statements were available to be issued. See Note 9 for subsequent event disclosures.

Note 2. Concentrations of Credit Risk

At times, the Foundation's cash balance(s) with financial institutions may exceed Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) insured limits of \$250,000. The Foundation has not experienced any losses, and management believes the Foundation has limited exposure to significant credit risk. Management regularly monitors the financial institutions and the Foundation's cash balances to minimize potential risk.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Liquidity and Availability

The following table reflects the Foundation's financial assets as of July 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the Statement of Financial Position due to contractual restrictions or internal-board designations. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 905,711	\$ 1,102,659
Investments	16,818,003	15,973,704
Receivables	24,932	102,354
	<hr/>	<hr/>
Total financial assets	17,748,646	17,178,717
Less amounts not available to be used within one year:		
Net assets with donor restrictions subject to purpose restriction	895,810	859,310
Donor-restricted funds to be held in perpetuity	3,330,431	3,361,514
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	4,226,241	4,220,824
Financial assets available to meet general expenditures over the next twelve months	\$ 13,522,405	\$ 12,957,893
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In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates a balanced budget and anticipates receiving revenue to cover general expenditures not covered by donor-restricted resources. Refer to the Statements of Cash Flows which identifies the sources and uses of the Foundation's cash and shows cash generated by operations during the year ended July 31, 2020 and 2019.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments

Investments measured at fair value consist of the following at July 31, 2020 and 2019:

	2020	
	Cost	Fair Market Value
Federal money market funds	\$ 119,179	\$ 119,179
Fixed income bond funds	3,168,871	3,241,868
Equity mutual funds	9,971,318	13,456,956
	<u>\$ 13,259,368</u>	<u>\$ 16,818,003</u>

	2019	
	Cost	Fair Market Value
Federal money market funds	\$ 50,004	\$ 50,004
Fixed income bond funds	3,186,183	3,218,215
Equity mutual funds	9,610,515	12,705,485
	<u>\$ 12,846,702</u>	<u>\$ 15,973,704</u>

Investment activity for the years ended July 31, 2020 and 2019, consists of the following:

	2020	2019
Balance, beginning of year	\$ 15,973,704	\$ 14,915,231
Excess cash transfer in	-	500,000
Contributions - donated securities	55,290	5,734
Investment Returns		
Interest and dividends	464,998	473,400
Realized gains	23,330	581,317
Unrealized gains (losses)	500,808	(329,299)
Net realized and unrealized gains	<u>524,138</u>	<u>252,018</u>
Investment-related fees	<u>(31,859)</u>	<u>(36,010)</u>
Net investment returns	957,277	689,408
Withdrawals	(168,268)	(136,669)
Balance, end of year	<u>\$ 16,818,003</u>	<u>\$ 15,973,704</u>

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Fair Value Measurements

The Financial Accounting Standards Board's (FASB's) authoritative guidance on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted, quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1 Inputs to the valuation methodology are unadjusted, quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets that are recorded at fair value on a recurring basis are investments, including those held in the Endowment Fund. The Foundation has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis. Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: The fair value of mutual funds are based on closing market prices for the identical security as reported in active markets.

ARMY WAR COLLEGE FOUNDATION, INC.**NOTES TO FINANCIAL STATEMENTS**

Note 5. Fair Value Measurements (Continued)

The following table sets forth those assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of July 31, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Federal money market funds	\$ 119,179	\$ -	\$ -	\$ 119,179
Fixed income bond funds				
Short-term	1,648,840	-	-	1,648,840
Intermediate	1,593,028	-	-	1,593,028
Equity mutual funds				
Small blend	1,462,978	-	-	1,462,978
Mid-cap growth	1,816,969	-	-	1,816,969
Large blend	8,031,311	-	-	8,031,311
Other	2,145,698	-	-	2,145,698
	<u>\$ 16,818,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,818,003</u>
	2019			
	Level 1	Level 2	Level 3	Total
Federal money market funds	\$ 50,004	\$ -	\$ -	\$ 50,004
Fixed income bond funds				
Short-term	1,640,018	-	-	1,640,018
Intermediate	1,578,197	-	-	1,578,197
Equity mutual funds				
Small blend	1,689,497	-	-	1,689,497
Mid-cap growth	1,514,071	-	-	1,514,071
Large blend	7,459,458	-	-	7,459,458
Other	2,042,459	-	-	2,042,459
	<u>\$ 15,973,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,973,704</u>

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Endowments

The Foundation's endowments, classified on the Statements of Financial Position as investments and cash, consist of six endowment funds established for a variety of purposes. The endowment funds include only donor-restricted assets. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Management of Institutional Funds Act (UPMIFA). Governing law resides in 15 Pa. C.S. §5548 "Investment of Trust Funds." The Foundation has interpreted relevant law as requiring the donor-restricted endowment fund, absent explicit donor stipulations to the contrary, to be managed with the long-term objective of at least maintaining the real values (after inflation) of the funds. The Foundation classifies as net assets with restrictions (a) the original values of gifts donated to the permanent endowment; (b) the original values of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor-gift instruments at the times the accumulations are added to the permanent endowment.

Interpretation of Relevant Law

The remaining portion of the donor-restricted endowment fund that is not appropriated for expenditure in accordance with donor restrictions remains classified net assets with restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by relevant law. Pennsylvania law permits the Board of Directors to make an election to annually appropriate for expenditure a selected percentage between 2.00% and 7.00% of the fair values of assets related to donor-restricted endowment fund, averaged over a period of three preceding years, provided the Board has determined that such percentage is consistent with the long-term preservation of the real values of such assets.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to maintain expenditures supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested based upon the standards of a "Prudent Man" that are intended to produce results that exceed the standard indices for each investment classification on an annual basis.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term, rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation's asset mix is comprised of cash and cash equivalents, and fixed-income bond and equity mutual funds. The Board has established an asset-mix strategy to improve the probability of achieving enhanced, real (inflation-protected) rates-of-return.

Spending Policy

The spending policy of the Foundation is to provide, as closely as possible, equitable benefit from the endowment for current and future programs. 2020 and 2019 spending policies of 7.00% and 7.00% for DeSerio Chair, 3.20% and 4.00% for the Landpower Essay Program, 7.00% and 7.00% for the Far East Studies, 7.00% and 7.00% for the General Endowment and 3.70% and 4.00% for the Sonny Moore Lecture, respectively, were adopted to meet the endowment's program-funding requirements. The Foundation appropriates funds on a total-return basis (i.e. interest, dividends and principal appreciation).

Net Asset Classifications of Endowment Funds

The following are the changes in endowment funds, which are net assets held in perpetuity for the years ended July 31, 2020 and 2019:

	2020	2019
Balance - beginning of year	\$ 3,361,514	\$ 3,397,612
Investment return:		
Interest and dividends	95,431	104,720
Net appreciation (realized and unrealized gains)	107,555	91,249
Investment-related fees	(6,541)	(7,206)
Total investment return	<u>196,445</u>	<u>188,763</u>
Appropriation of endowment assets for expenditures	(227,528)	(224,861)
Balance - end of year	<u>\$ 3,330,431</u>	<u>\$ 3,361,514</u>

Endowment assets are components of investments on the Statements of Financial Position.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following purposes:

	2020	2019
Subject to expenditures for specified purposes:		
Advanced Strategic Art Program	\$ 18,588	\$ 49,738
Army Strategic Education Program	25,000	-
Army Leader Day	5,000	-
Bussey Military Intelligence Writing Award	1,975	1,975
Carlisle Scholars Program	15,100	40,100
Chair of War Studies	900	-
Chaplain Moore Lecture	9,017	5,517
Col Arseny A Melnick Lecture	6,691	6,691
COL Kelly Counterinsurgency Writing Award	2,250	3,250
CSL Programs	75,000	75,000
Daniel Lewin Memorial	7,742	7,742
DDE Alumni Scholarships	99,712	63,996
DeSerio Chair of Strategic Theatre Intelligence	-	136,350
Ethics Program	23,000	23,000
Environmental Security lecture	25,000	15,000
General Endowment	301,570	222,774
IF Family Program	80,200	-
IF LTG DeWitt Smith Lecture	15,932	15,932
Industry day	966	2,960
Landpower Essay	5,001	5,001
Library Fund	-	2,500
Military Family Program	6,850	5,250
National Security Seminar	-	3,045
NG/USAR Birthday Fund	888	1,137
Nominative Leadership Award	2,070	2,821
Outstanding Alumnus programs	35,267	41,555
PKSOI	91,443	91,443
Special Memorial Funds	9,116	8,666
Strategic Studies Institute	141	141
Student writing awards	18,853	16,573
The Park Fund-Far East Studies	3,915	2,530
Turning Point Lecture	4,031	4,031
Wounded Warrior Fund	4,592	4,592
Not subject to appropriation of expenditures:		
Chaplain Moore Lecture	98,530	96,300
Landpower Essay	164,185	159,633
The Park Fund-Far East Studies	19,452	19,710
General Endowment	1,106,712	1,121,304
DeSerio Chair of Strategic Theater Intelligence	1,941,552	1,964,567
	<u>\$ 4,226,241</u>	<u>\$ 4,220,824</u>

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. Satisfaction of Restrictions

	2020	2019
Satisfaction of purpose restrictions:		
Advanced Strategic Art Program	\$ 31,500	\$ 25,000
Army Leader Day	-	3,524
Carlisle Scholars Program	25,000	25,000
Chair of War Studies	100	-
Chaplain Moore Lecture	-	3,500
COL Kelly Counterinsurgency Writing Award	1,000	-
Daniel Lewin Memorial	-	2,806
DDE Alumni Scholarships	4,500	3,000
DeSerio Chair of Strategic Theater Intelligence	275,197	319
Executive Leadership Award	751	1,029
IF Hersheypark tickets	-	19,306
IF LTG DeWitt Smith Lecture	-	250
Industry Day	5,055	87
Landpower Essay	5,000	-
Library Fund	2,500	-
Military Family Program	5,000	-
National Security Seminar	3,045	25,105
NG/USAR Birthday Fund	250	326
Outstanding alumnus	6,286	4,913
Special Memorial Funds	6,000	6,750
Student Writing Awards	2,820	2,580
The Park Fund-Far East Studies	-	1,376
Distributions from endowments	227,528	224,861
	<u>\$ 601,532</u>	<u>\$ 349,732</u>

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Subsequent Events

Recent developments arising from the coronavirus pandemic and efforts to mitigate the disease's domestic and global impacts have disrupted operations of companies in many industries. Facility closings, labor and personnel layoffs, curtailments of supply lines and increased materials costs, contracted production, dislocations of product-delivery methods, and reduced markets enhance the Foundation's risk factors as they have a significant reliance on revenue from third parties to fund their operations. These factors adversely impact revenue recognition, cash flows and liquidity, contingencies, and in some instances, the going-concern assumption. Presently, the ultimate effects of this crisis on financial position, results of operations, and cash flows are indeterminable because the duration of the crisis is also indeterminable; however, management continues to monitor developments.

SUPPLEMENTARY INFORMATION

ARMY WAR COLLEGE FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM
Year Ended July 31, 2020

	Program Services				Support Services		Total Expenses
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General	Fundraising	
Salaries	\$ 42,688	\$ 52,592	\$ 44,117	\$ 55,558	\$ 133,840	\$ 195,211	\$ 524,006
Payroll taxes	3,303	4,186	3,409	4,293	9,929	15,084	40,204
Benefits - IRA Match	1,086	1,266	671	1,319	2,533	5,259	12,134
Depreciation	3,587	2,869	1,434	1,434	3,586	1,434	14,344
Legal and accounting	-	-	-	-	27,326	-	27,326
Bank, credit card and PayPal fees	7,870	-	-	-	6,164	-	14,034
Dues and subscriptions	-	-	-	-	1,518	-	1,518
Board member support	-	-	-	-	10,730	-	10,730
Insurance	-	-	-	-	4,650	-	4,650
Leased equipment	-	-	-	-	3,661	-	3,661
Travel	-	-	-	-	30	3,899	3,929
Meals and entertainment	-	-	-	-	-	502	502
Stationary and supplies	1,743	1,396	1,047	1,047	698	1,047	6,978
Magazine	3,299	19,798	13,199	16,498	3,300	9,899	65,993
Postage and shipping	922	920	690	690	460	920	4,602
Telephone and internet	559	560	560	560	933	560	3,732
Automation	3,478	3,478	2,609	2,609	3,478	1,739	17,391
Sutler supplies	2,378	595	-	-	-	-	2,973
Sutler postage and merchandise shipping	4,474	1,119	-	-	-	-	5,593
Gifts-In-Kind to AWC	-	-	-	4,590	-	-	4,590
DeSerio Chair of Strategic Intelligence	-	-	360,431	-	-	-	360,431
Chair of War Studies	-	-	100	-	-	-	100
Post doctoral fellows	-	-	284,000	-	-	-	284,000
Advanced Strategic Arts Program (ASAP)	-	-	31,500	-	-	-	31,500
Industry Day	-	-	5,055	-	-	-	5,055
Commandant Reading Program	-	-	2,000	-	-	-	2,000

(Continued)

ARMY WAR COLLEGE FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM (Continued)

Year Ended July 31, 2020

	Program Services			Support Services			Total Expenses
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General	Fundraising	
New academic building	-	-	272,798	-	-	-	272,798
Student Writing and Speaking Awards	-	-	10,071	-	-	-	10,071
Honoraria and Dean's Programs	-	-	80,000	-	-	-	80,000
Faculty development	-	-	3,500	-	-	-	3,500
Military Family Program	-	-	-	6,775	-	-	6,775
Managed accounts	-	-	-	250	-	-	250
Special events support	-	-	-	2,231	-	-	2,231
Outstanding Alum Program	-	-	-	6,288	-	-	6,288
Special Memorial Fund	-	-	-	6,000	-	-	6,000
SLDP and AWCF Outreach	-	-	-	240,061	-	-	240,061
Corporate Development	-	-	-	-	-	520	520
Reunions and receptions	-	-	-	22,025	-	15,879	37,904
Press activities, royalties and production	-	-	-	1,394	-	-	1,394
Scholarships	-	15,000	5,500	-	-	-	20,500
Foundation Support	895	2,879	-	-	-	3,678	7,452
Mailouts	-	-	-	-	-	21,487	21,487
Fundraising, advertising and marketing	461	-	-	-	175	-	636
Alumnus research	-	554	-	-	-	-	554
Miscellaneous	-	2,607	-	-	-	-	2,607
Defective merchandise write-off	111	-	-	-	-	-	111
Cost of goods sold and raffle costs	96,799	-	-	-	-	-	96,799
	<u>\$ 173,653</u>	<u>\$ 109,819</u>	<u>\$ 1,122,691</u>	<u>\$ 373,622</u>	<u>\$ 213,011</u>	<u>\$ 277,118</u>	<u>\$ 2,269,914</u>

ARMY WAR COLLEGE FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM

Year Ended July 31, 2019

	Program Services				Support Services		Total Expenses
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General	Fundraising	
Salaries	\$ 46,855	\$ 53,430	\$ 41,054	\$ 45,896	\$ 128,264	\$ 177,088	\$ 492,587
Payroll taxes	3,584	4,414	3,141	3,511	10,007	13,047	37,704
Benefits - IRA Match	998	1,141	513	924	1,954	4,267	9,797
Depreciation	2,827	2,263	1,132	1,132	2,829	1,132	11,315
Legal and accounting	-	-	-	-	25,506	-	25,506
Bank, credit card and PayPal fees	12,093	-	-	-	8,425	-	20,518
Dues and subscriptions	-	-	-	-	938	-	938
Board member support	-	-	-	-	28,188	-	28,188
Insurance	-	-	-	-	4,748	-	4,748
Leased equipment	-	-	-	-	3,485	-	3,485
Travel	-	1,105	-	-	991	5,240	7,336
Meals and entertainment	-	-	-	-	-	633	633
Stationary and supplies	2,532	2,025	1,519	1,519	1,013	1,519	10,127
Magazine	3,339	20,034	13,356	16,695	3,339	10,017	66,780
Postage and shipping	865	866	649	649	433	866	4,328
Telephone and internet	605	607	607	607	1,011	607	4,044
Automation	2,886	2,885	2,164	2,164	2,885	1,443	14,427
Sutler supplies	3,722	931	-	-	-	-	4,653
Sutler postage and merchandise shipping	3,825	956	-	-	-	-	4,781
Gifts-In-Kind to AWC	-	-	-	6,541	-	-	6,541
DeSerio Chair of Strategic Intelligence	-	-	319	-	-	-	319
Chair of Strategic Leadership	-	-	200,000	-	-	-	200,000
Chair of War Studies	-	-	200,000	-	-	-	200,000
Post doctoral fellows	-	-	100,000	-	-	-	100,000
Applied communications lab	-	-	150,000	-	-	-	150,000
Advanced Strategic Arts Program (ASAP)	-	-	25,000	-	-	-	25,000
Industry Day	-	-	88	-	-	-	88
Commandant Reading Program	-	-	2,000	-	-	-	2,000
Lecture Series	-	-	11,306	-	-	-	11,306

(Continued)

ARMY WAR COLLEGE FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM (Continued)

Year Ended July 31, 2019

	Program Services			Support Services			Total Expenses
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General	Fundraising	
New academic building	-	-	12,982	-	-	-	12,982
Student Writing & Speaking Awards	-	-	4,109	-	-	-	4,109
Honoraria and Dean's Programs	-	-	110,105	-	-	-	110,105
Faculty Development	-	-	3,150	-	-	-	3,150
International Fellows (IF)	-	-	-	89,456	-	-	89,456
Managed accounts	-	-	-	325	-	-	325
Special events support	-	-	-	4,019	-	-	4,019
Outstanding Alum Program	-	-	-	4,913	-	-	4,913
Special Memorial Fund	-	-	-	6,750	-	-	6,750
SLDP and AWCF Outreach	-	-	-	281,567	-	-	281,567
Protocol services	-	-	-	50,000	-	-	50,000
Corporate development	-	-	-	-	-	7,637	7,637
Reunions and receptions	-	-	-	29,484	-	11,393	40,877
Press activities, royalties and production	-	-	-	5,521	-	-	5,521
Awards and Recognitions	-	16,000	4,000	5,000	-	-	25,000
Foundation support	3,068	5,495	-	-	-	4,988	13,551
Mailouts	-	-	-	-	-	16,461	16,461
Fundraising, advertising and marketing	346	197	-	-	175	-	718
Alumnus research	-	516	-	-	-	-	516
Miscellaneous	-	3,502	-	-	560	-	4,062
Defective merchandise write-off	1,012	-	-	-	-	-	1,012
Cost of goods sold and raffle costs	152,153	-	-	-	-	-	152,153
	<u>\$ 240,710</u>	<u>\$ 116,367</u>	<u>\$ 887,194</u>	<u>\$ 556,673</u>	<u>\$ 224,751</u>	<u>\$ 256,338</u>	<u>\$ 2,282,033</u>