

**ARMY WAR COLLEGE
FOUNDATION, INC.**

FINANCIAL REPORT

JULY 31, 2021

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 - 21

SUPPLEMENTARY INFORMATION

Schedules of Functional Expenses by Program	22 - 25
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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. (the Foundation), which comprise the statements of financial position as of July 31, 2021 and 2020, and the related statements of activities, functional expenses 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, 2021 and 2020, 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 14, 2022

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
July 31, 2021 and 2020

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 978,372	\$ 905,711
Receivables		
Contributions	384	24,208
Trade	64	724
Total receivables	<u>448</u>	24,932
Prepaid expenses	2,130	13,434
Inventories	<u>175,502</u>	257,819
Total current assets	<u>1,156,452</u>	1,201,896
Furniture and Equipment	194,309	194,309
Less accumulated depreciation	<u>(139,217)</u>	<u>(124,706)</u>
	55,092	69,603
Investments	21,144,956	16,818,003
Self-insured unemployment deposit	<u>595</u>	<u>595</u>
Total assets	<u>\$ 22,357,095</u>	\$ 18,090,097
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 27,360	\$ 416,801
Accrued payroll	1,136	1,278
Sales tax payable	<u>1,396</u>	<u>216</u>
Total current liabilities	<u>29,892</u>	418,295
Net Assets		
Without donor restrictions	17,219,009	13,445,561
With donor restrictions	<u>5,108,194</u>	<u>4,226,241</u>
Total net assets	<u>22,327,203</u>	17,671,802
Total liabilities and net assets	<u>\$ 22,357,095</u>	\$ 18,090,097

See Notes to Financial Statements.

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
Years Ended July 31, 2021 and 2020

	Total	
	2021	2020
Revenue, Gains and Other Support		
Contributions	\$ 1,183,305	\$ 1,347,339
In-kind contributions	108,018	59,373
Membership income	73,889	96,599
SLSR program support	56,762	655,590
Sutler sales	174,738	137,539
Royalties	14,224	18,566
Miscellaneous income	1,269	2,269
Net assets released from restrictions	-	-
Total revenue, gains and other support	1,612,205	2,317,275
Expenses and Losses		
Program services	957,499	1,779,785
General and administrative	200,281	213,011
Fundraising	255,024	277,118
Total functional expenses	1,412,804	2,269,914
Changes in net assets before investment return	199,401	47,361
Investment Return, net	4,456,000	959,099
Changes in net assets	4,655,401	1,006,460
Net Assets:		
Beginning	17,671,802	16,665,342
Ending	\$ 22,327,203	\$ 17,671,802

See Notes to Financial Statements.

Without Donor Restrictions		With Donor Restrictions	
2021	2020	2021	2020
\$ 619,241	\$ 936,835	\$ 564,064	\$ 410,504
108,018	59,373	-	-
73,889	96,599	-	-
56,762	655,590	-	-
174,738	137,539	-	-
14,224	18,566	-	-
1,269	2,269	-	-
490,168	601,532	(490,168)	(601,532)
1,538,309	2,508,303	73,896	(191,028)
957,499	1,779,785	-	-
200,281	213,011	-	-
255,024	277,118	-	-
1,412,804	2,269,914	-	-
125,505	238,389	73,896	(191,028)
3,647,943	762,654	808,057	196,445
3,773,448	1,001,043	881,953	5,417
13,445,561	12,444,518	4,226,241	4,220,824
\$ 17,219,009	\$ 13,445,561	\$ 5,108,194	\$ 4,226,241

ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 192,511	\$ 131,217	\$ 188,341	\$ 512,069
Payroll taxes	14,489	10,286	14,408	39,183
Benefits - IRA Match	4,364	2,519	5,259	12,142
Depreciation	5,456	3,718	5,337	14,511
Legal and accounting	-	28,043	-	28,043
Bank, credit card and PayPal fees	9,453	6,926	-	16,379
Dues and subscriptions	-	793	-	793
Insurance	-	3,813	-	3,813
Leased equipment	-	3,893	-	3,893
Meals and entertainment	-	-	499	499
Stationary and supplies	1,739	232	348	2,319
Magazine	58,952	3,684	11,053	73,689
Postage and shipping	2,721	389	777	3,887
Telephone and internet	2,065	860	516	3,441
Automation	12,465	3,562	1,781	17,808
Sutler supplies	2,555	-	-	2,555
Sutler postage and merchandise shipping	7,870	-	-	7,870
Gifts-In-Kind to AWC	2,288	-	-	2,288
Chair of War Studies	10,000	-	-	10,000
Post doctoral fellows	250,000	-	-	250,000
Advanced Strategic Education Program (ASEP)	25,000	-	-	25,000
Center for Strategic Leadership (CSL)	25,000	-	-	25,000

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ARMY WAR COLLEGE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES (Continued)
Year Ended July 31, 2021

	Program Services	Management and General	Fundraising	Total
New academic building	641	-	-	641
Student Writing and Speaking Awards	3,500	-	-	3,500
Honoraria and Dean's Programs	30	-	-	30
Faculty Development	8,320	-	-	8,320
International Fellows (IF)	42,610	-	-	42,610
Military Family Program	1,456	-	-	1,456
Special events support	1,758	-	-	1,758
Outstanding Alum Program	525	-	-	525
SLDP and AWCF Outreach	82,506	-	-	82,506
Corporate development	-	-	8,807	8,807
Press activities, royalties and production	42,736	-	-	42,736
Scholarships	27,000	-	-	27,000
Foundation support	1,106	-	2,001	3,107
Mailouts	-	-	15,897	15,897
Fundraising, advertising and marketing	2,689	175	-	2,864
Alumnus research	696	-	-	696
Miscellaneous	1,943	171	-	2,114
Defective merchandise write-off	96	-	-	96
Cost of goods sold and raffle costs	112,959	-	-	112,959
	<u>\$ 957,499</u>	<u>\$ 200,281</u>	<u>\$ 255,024</u>	<u>\$ 1,412,804</u>

See Notes to Financial Statements.

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
Awards and recognitions	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.

STATEMENTS OF CASH FLOWS
Years Ended July 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Changes in net assets	\$ 4,655,401	\$ 1,006,460
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	14,511	14,344
Net realized and unrealized gains on investments	(3,510,697)	(524,138)
Donated stock	(102,945)	(55,290)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	24,484	77,422
Prepaid expenses	11,304	92,412
Inventories	82,317	(18,623)
(Decrease) increase in:		
Accounts and sales tax payable	(388,261)	(9,028)
Accrued payroll	(142)	(1,526)
Deferred revenue	-	(508,200)
Net cash provided by operating activities	785,972	73,833
Cash Flows From Investing Activities		
Purchase of furniture and equipment	-	(5,910)
Purchases of investments	(3,461,382)	(493,949)
Proceeds from sale of investments	2,748,071	229,078
Net cash used in investing activities	(713,311)	(270,781)
Net change in cash and cash equivalents	72,661	(196,948)
Cash and Cash Equivalents:		
Beginning	905,711	1,102,659
Ending	\$ 978,372	\$ 905,711
Supplemental Schedule of Noncash Investing Activities:		
Donated stock	\$ (102,945)	\$ (55,290)

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.

Revenue Recognition: The following describes the Foundation's major revenue streams, which represent the disaggregation of revenues to transactions that are similar in nature, amount, timing, uncertainties and economic factors:

Membership income: Membership dues, which are nonrefundable, are considered a contribution and recognized when received.

SLSR program support: The Foundation will recognize revenue when costs of the goods and services are incurred by the Foundation and contribution revenue for any additional amounts. The revenue for goods and services is recognized at the time of the event. The contribution revenue is recognized when received.

Sutler sales: Sutler sales are recognized at the point in time the goods are provided to the customer.

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

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 Statements of Activities as net assets released from restrictions.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition (Continued): 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.

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. The Foundation received the following donated services and property for the years ended July 31:

	2021	2020
Contributions		
Donated stock	\$ 102,922	\$ 55,290
Donated goods	5,096	4,083
	<u>\$ 108,018</u>	<u>\$ 59,373</u>
Expenses		
Programs services	\$ 5,096	\$ 4,083
	<u>\$ 5,096</u>	<u>\$ 4,083</u>
Investments	<u>\$ 102,922</u>	<u>\$ 55,290</u>

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, 2021, 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: In 2021, the Foundation adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 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. We have implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments have been applied under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation.

Recent Accounting Pronouncements: In February 2016, FASB issued Accounting Standards Update (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, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. Management is currently evaluating the effects that this Standard will have on the Foundation's financial statements.

In September 2020, FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets, which will require not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Also, this ASU will require disclosure of a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets, as well as additional information around valuation and usage of the contributed nonfinancial assets. The amendments in this standard should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The Foundation is currently evaluating the impact of this new Standard on its financial statements.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentations. These reclassifications had no effect on the Foundation's financial position, changes in net assets or cash flows as of and for the year ended July 31, 2020.

Subsequent Events: In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through January 14, 2022, the date the financial statements were available to be issued.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Note 3. Liquidity and Availability

The following table reflects the Foundation's financial assets as of July 31, 2021 and 2020, 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.

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 978,372	\$ 905,711
Investments	21,144,956	16,818,003
Receivables	448	24,932
	<hr/>	<hr/>
Total financial assets	22,123,776	17,748,646
Less amounts not available to be used within one year:		
Net assets with donor restrictions subject to purpose restriction	1,196,559	895,810
Donor-restricted funds to be held in perpetuity	3,911,635	3,330,431
	<hr/>	<hr/>
	5,108,194	4,226,241
Financial assets available to meet general expenditures over the next twelve months	<hr/> <hr/>	<hr/> <hr/>
	\$ 17,015,582	\$ 13,522,405

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, 2021 and 2020.

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments

Investments measured at fair value consist of the following at July 31, 2021 and 2020:

	2021	
	Cost	Fair Market Value
Federal money market funds	\$ 33,330	\$ 33,330
Fixed income bond funds	3,872,399	3,971,884
Equity mutual funds	10,488,697	17,139,742
	<u>\$ 14,394,426</u>	<u>\$ 21,144,956</u>

	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>

Investment activity for the years ended July 31, 2021 and 2020, consists of the following:

	2021	2020
Balance, beginning of year	\$ 16,818,003	\$ 15,973,704
Contributions - donated stock	102,922	55,290
Investment Returns		
Interest and dividends	982,750	464,998
Realized gains	422,379	23,330
Unrealized gains	3,088,318	500,808
Net realized and unrealized gains	<u>3,510,697</u>	<u>524,138</u>
Investment-related fees	(38,653)	(31,859)
Net investment returns	<u>4,454,794</u>	<u>957,277</u>
Withdrawals	(230,763)	(168,268)
Balance, end of year	<u>\$ 21,144,956</u>	<u>\$ 16,818,003</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, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
Federal money market funds	\$ 33,330	\$ -	\$ -	\$ 33,330
Fixed income bond funds				
Short-term	2,263,427	-	-	2,263,427
Intermediate	1,708,457	-	-	1,708,457
Equity mutual funds				
Small blend	1,042,527	-	-	1,042,527
Mid-cap growth	2,288,461	-	-	2,288,461
Large blend	11,004,182	-	-	11,004,182
Other	2,804,572	-	-	2,804,572
	<u>\$ 21,144,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,144,956</u>
	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>

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 five 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. 2021 and 2020 spending policies of 7.00% and 7.00% for DeSerio Chair, 3.10% and 3.20% 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 3.60% and 3.70% 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, 2021 and 2020:

	2021	2020
Balance - beginning of year	\$ 3,330,431	\$ 3,361,514
Investment return:		
Interest and dividends	180,096	95,431
Net appreciation (realized and unrealized gains)	635,366	107,555
Investment-related fees	(7,405)	(6,541)
Total investment return	<u>808,057</u>	<u>196,445</u>
Appropriation of endowment assets for expenditures	(226,853)	(227,528)
Balance - end of year	<u>\$ 3,911,635</u>	<u>\$ 3,330,431</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:

	2021	2020
Subject to expenditures for specified purposes:		
Awards	\$ 26,598	\$ 25,148
Chaplain Moore Lecture	12,517	9,017
College programs and positions	198,273	249,172
DeSerio Chair of Strategic Theater Intelligence	138,115	-
General Endowment	380,422	301,570
International Fellows support	101,521	96,131
Landpower Essay	5,001	5,001
Lectures and events	124,527	85,582
Miscellaneous college support	14,446	11,447
New academic building	65,142	-
Scholarships	124,696	108,827
The Park Fund-Far East Studies	5,301	3,915
Not subject to appropriation of expenditures:		
Chaplain Moore Lecture	121,312	98,530
Landpower Essay	203,066	164,185
The Park Fund-Far East Studies	23,182	19,452
General Endowment	1,318,928	1,106,712
DeSerio Chair of Strategic Theater Intelligence	2,245,147	1,941,552
	<u>\$ 5,108,194</u>	<u>\$ 4,226,241</u>

Note 8. Satisfaction of Restrictions

	2021	2020
Satisfaction of purpose restrictions:		
Awards	\$ 3,250	\$ 4,571
College programs and positions	50,900	331,797
International Fellows support	42,610	-
Landpower Essay	5,000	5,000
Lectures and events	1,055	14,636
Miscellaneous college support	-	7,500
New academic building	150,000	-
Scholarships	10,500	10,500
Distributions from endowments	226,853	227,528
	<u>\$ 490,168</u>	<u>\$ 601,532</u>

ARMY WAR COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Uncertainties

Developments arising from the coronavirus pandemic and efforts to mitigate the disease's effects continue to disrupt the global economy. Until the pandemic is brought under control in the view of the public, and in the view of the governmental entities restricting the operations of businesses, the impact on the financial well-being of the Foundation remains unknown. Therefore, the ultimate effects of this crisis on the financial position, results of operations and cash flows of the Foundation 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, 2021

	Program Services				Support Services		Total Expenses
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General	Fundraising	
Salaries	\$ 41,802	\$ 52,909	\$ 43,350	\$ 54,450	\$ 131,217	\$ 188,341	\$ 512,069
Payroll taxes	2,950	4,058	3,316	4,165	10,286	14,408	39,183
Benefits - IRA Match	1,097	1,277	671	1,319	2,519	5,259	12,142
Depreciation	1,186	1,499	1,228	1,543	3,718	5,337	14,511
Legal and accounting	-	-	-	-	28,043	-	28,043
Bank, credit card and PayPal fees	9,453	-	-	-	6,926	-	16,379
Dues and subscriptions	-	-	-	-	793	-	793
Insurance	-	-	-	-	3,813	-	3,813
Leased equipment	-	-	-	-	3,893	-	3,893
Meals and entertainment	-	-	-	-	-	499	499
Stationary and supplies	579	464	348	348	232	348	2,319
Magazine	3,685	22,107	14,738	18,422	3,684	11,053	73,689
Postage and shipping	778	777	583	583	389	777	3,887
Telephone and internet	517	516	516	516	860	516	3,441
Automation	3,561	3,562	2,671	2,671	3,562	1,781	17,808
Sutler supplies	2,555	-	-	-	-	-	2,555
Sutler postage and merchandise shipping	7,870	-	-	-	-	-	7,870
Gifts-In-Kind to AWC	-	-	-	2,288	-	-	2,288
Chair of War Studies	-	-	10,000	-	-	-	10,000
Post doctoral fellows	-	-	250,000	-	-	-	250,000
Advanced Strategic Education Program (ASEP)	-	-	25,000	-	-	-	25,000
Center for Strategic Leadership (CSL)	-	-	25,000	-	-	-	25,000

(Continued)

ARMY WAR COLLEGE FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM (Continued)
Year Ended July 31, 2021

	Program Services			Support Services		Total Expenses	
	Sutler Store	Member Services	Academic Program	Program Enhancement	Management and General		Fundraising
New academic building	-	-	641	-	-	-	641
Student writing and speaking awards	-	-	3,500	-	-	-	3,500
Honoraria and Dean's programs	-	-	30	-	-	-	30
Awards and recognitions	-	-	8,320	-	-	-	8,320
International Fellows (IF)	-	-	-	42,610	-	-	42,610
Military family program	-	-	-	1,456	-	-	1,456
Special events support	-	-	-	1,758	-	-	1,758
Outstanding alum program	-	-	-	525	-	-	525
SLDP and AWCF outreach	-	-	-	82,506	-	-	82,506
Corporate development	-	-	-	-	-	8,807	8,807
Press activities, royalties and production	-	-	-	42,736	-	-	42,736
Scholarships	-	15,500	-	11,500	-	-	27,000
Foundation support	400	706	-	-	-	2,001	3,107
Mailouts	-	-	-	-	-	15,897	15,897
Fundraising, advertising and marketing	2,689	-	-	-	175	-	2,864
Alumnus research	-	696	-	-	-	-	696
Miscellaneous	-	1,943	-	-	171	-	2,114
Defective merchandise write-off	96	-	-	-	-	-	96
Cost of goods sold and raffle costs	112,959	-	-	-	-	-	112,959
	<u>\$ 192,177</u>	<u>\$ 106,014</u>	<u>\$ 389,912</u>	<u>\$ 269,396</u>	<u>\$ 200,281</u>	<u>\$ 255,024</u>	<u>\$ 1,412,804</u>

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
Awards and recognitions	-	-	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>