

FINANCIAL STATEMENTS



**NATIONAL ARCHIVES
FOUNDATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

NATIONAL ARCHIVES FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Archives Foundation
Washington, D.C.

We have audited the accompanying financial statements of the National Archives Foundation (the Foundation), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2018, and the change 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRCPA.COM

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Report on Summarized Comparative Information

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

February 22, 2019

NATIONAL ARCHIVES FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,845,958	\$ 2,244,947
Investments	3,839,159	3,813,034
Accounts receivable	4,000	-
Current portion of pledges receivable	637,790	784,486
Inventory	965,616	915,903
Prepaid expenses	<u>145,191</u>	<u>59,677</u>
Total current assets	<u>8,437,714</u>	<u>7,818,047</u>
FIXED ASSETS		
Equipment	200,571	194,387
Less: Accumulated depreciation	<u>(187,173)</u>	<u>(180,240)</u>
Net fixed assets	<u>13,398</u>	<u>14,147</u>
NON-CURRENT ASSETS		
Long-term pledges receivable	<u>96,842</u>	<u>903,516</u>
TOTAL ASSETS	<u>\$ 8,547,954</u>	<u>\$ 8,735,710</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 199,875	\$ 98,039
Accrued salaries and benefits	56,224	57,590
Deferred revenue	<u>96,575</u>	<u>128,025</u>
Total current liabilities	<u>352,674</u>	<u>283,654</u>
NET ASSETS		
Unrestricted	3,144,355	2,570,772
Temporarily restricted	2,150,925	2,981,284
Permanently restricted	<u>2,900,000</u>	<u>2,900,000</u>
Total net assets	<u>8,195,280</u>	<u>8,452,056</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,547,954</u>	<u>\$ 8,735,710</u>

NATIONAL ARCHIVES FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUE					
Support:					
Contributions and grants	\$ 1,249,207	\$ 1,407,035	\$ -	\$ 2,656,242	\$ 5,543,693
Contributed goods and services	570,192	450,012	-	1,020,204	476,955
Membership dues	1,003,960	-	-	1,003,960	974,125
Net assets released from donor restrictions	<u>2,724,287</u>	<u>(2,724,287)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support	<u>5,547,646</u>	<u>(867,240)</u>	<u>-</u>	<u>4,680,406</u>	<u>6,994,773</u>
Revenue:					
Archives shop revenue, net of cost of goods sold and shrinkage of \$1,275,367 for 2018	1,788,329	-	-	1,788,329	1,896,100
Investment income	200,144	36,881	-	237,025	85,623
Exhibition revenue	306,210	-	-	306,210	143,875
Royalties and miscellaneous	<u>15,425</u>	<u>-</u>	<u>-</u>	<u>15,425</u>	<u>31,943</u>
Total revenue	<u>2,310,108</u>	<u>36,881</u>	<u>-</u>	<u>2,346,989</u>	<u>2,157,541</u>
Total support and revenue	<u>7,857,754</u>	<u>(830,359)</u>	<u>-</u>	<u>7,027,395</u>	<u>9,152,314</u>
EXPENSES					
Program Services:					
(1) National Archives Experience	17,398	-	-	17,398	55,193
(2) Museum Activities	914,252	-	-	914,252	728,689
(3) Theater Programs	189,052	-	-	189,052	163,016
(4) Education	513,853	-	-	513,853	354,968
(5) Exhibitions	1,646,596	-	-	1,646,596	772,541
(6) Archives Shop	1,147,607	-	-	1,147,607	1,114,944
(7) Ronald Reagan Library	<u>597,538</u>	<u>-</u>	<u>-</u>	<u>597,538</u>	<u>68,310</u>
Total program services	<u>5,026,296</u>	<u>-</u>	<u>-</u>	<u>5,026,296</u>	<u>3,257,661</u>
Supporting Services:					
(9) General and Administrative	1,274,886	-	-	1,274,886	901,380
(10) Fundraising	<u>982,989</u>	<u>-</u>	<u>-</u>	<u>982,989</u>	<u>925,292</u>
Total supporting services	<u>2,257,875</u>	<u>-</u>	<u>-</u>	<u>2,257,875</u>	<u>1,826,672</u>
Total expenses	<u>7,284,171</u>	<u>-</u>	<u>-</u>	<u>7,284,171</u>	<u>5,084,333</u>
Change in net assets	573,583	(830,359)	-	(256,776)	4,067,981
Net assets at beginning of year	<u>2,570,772</u>	<u>2,981,284</u>	<u>2,900,000</u>	<u>8,452,056</u>	<u>4,384,075</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,144,355</u>	<u>\$ 2,150,925</u>	<u>\$ 2,900,000</u>	<u>\$ 8,195,280</u>	<u>\$ 8,452,056</u>

NATIONAL ARCHIVES FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	Program Services				
	(1) National Archives Experience	(2) Museum Activities	(3) Theater Programs	(4) Education	(5) Exhibitions
Salaries and benefits	\$ 53	\$ 254,230	\$ 40,555	\$ 6,197	\$ 72,900
Printing	5,985	29,744	660	41	3,325
Professional fees	200	401,667	49,061	16,803	309,042
Occupancy	-	57,310	7,366	6,871	19,361
Insurance	-	-	-	-	-
Travel and entertainment	-	13,148	20,562	250	18,228
Postage and delivery	-	5,240	20	135	62
Supplies	-	24,604	-	16,218	4,448
Dues and subscriptions	-	417	-	-	-
Shop operating expenses	9,204	-	-	-	-
Depreciation	-	2,230	-	-	-
Advertising and promotion	1,956	110,678	70,828	602	572,238
Bad debt expense/recovery of bad debt	-	2,500	-	-	-
Miscellaneous	-	4,424	-	442	-
Interest expense	-	-	-	-	-
Equipment	-	750	-	-	-
Awards	-	-	-	-	24,250
Contracts	-	7,000	-	466,000	620,000
Legal	-	-	-	-	-
Accounting/Audit	-	-	-	35	-
Telephone	-	-	-	-	-
Meetings and conventions	-	310	-	259	242
Membership dues	-	-	-	-	2,500
TOTAL	\$ 17,398	\$ 914,252	\$ 189,052	\$ 513,853	\$ 1,646,596

Supporting Services							
(6) Archives Shop	(7) Ronald Reagan Library	(8) Total Program Services (Sum of (1) to (7))	(9) General and Administrative	(10) Fundraising	(11) Total Supporting Services ((9)+(10))	(12) Total Expenses ((8)+(11))	2017 Total Expenses
\$ 705,547	\$ -	\$ 1,079,482	\$ 956,955	\$ 558,434	\$ 1,515,389	\$ 2,594,871	\$ 2,158,389
8,590	-	48,345	21,245	18,432	39,677	88,022	124,898
70,620	-	847,393	79,786	258,232	338,018	1,185,411	1,366,755
124,876	-	215,784	74,124	68,082	142,206	357,990	347,563
-	-	-	12,582	-	12,582	12,582	11,777
4,455	-	56,643	8,733	5,337	14,070	70,713	84,889
52,473	245	58,175	4,417	13,294	17,711	75,886	69,711
36,900	-	82,170	26,505	3,225	29,730	111,900	124,142
-	-	417	5,334	3,938	9,272	9,689	14,426
-	-	9,204	-	-	-	9,204	1,153
4,404	-	6,634	299	-	299	6,933	5,110
48,065	-	804,367	125	2,338	2,463	806,830	301,149
-	-	2,500	-	-	-	2,500	-
18,596	596,193	619,655	30,798	28,710	59,508	679,163	109,704
93	-	93	413	-	413	506	668
3,736	-	4,486	-	-	-	4,486	1,749
-	-	24,250	-	-	-	24,250	12,475
-	-	1,093,000	-	-	-	1,093,000	-
-	-	-	-	-	-	-	-
69,059	-	69,094	42,976	13,429	56,405	125,499	132,581
-	-	-	371	-	371	371	595
193	1,100	2,104	10,223	9,538	19,761	21,865	216,599
-	-	2,500	-	-	-	2,500	-
\$ 1,147,607	\$ 597,538	\$ 5,026,296	\$ 1,274,886	\$ 982,989	\$ 2,257,875	\$ 7,284,171	\$ 5,084,333

NATIONAL ARCHIVES FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (256,776)	\$ 4,067,981
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,933	5,110
Realized (gain) loss from sale of investments	(61,641)	35,030
Unrealized gain on investments	(136,518)	(106,595)
Allowance for doubtful accounts	2,894	-
Change in discount on long term receivables	13,340	(46,376)
(Increase) decrease in:		
Accounts receivable	(4,000)	3,564
Pledges receivable	937,136	535,100
Inventory	(49,713)	(127,615)
Prepaid expenses	(85,514)	7,188
Increase (decrease) in:		
Accounts payable	101,836	(6,168)
Accrued salaries and benefits	(1,366)	(41,023)
Deferred revenue	<u>(31,450)</u>	<u>117,875</u>
Net cash provided by operating activities	<u>435,161</u>	<u>4,444,071</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(6,184)	(7,905)
Net proceeds (purchases) from investments	<u>172,034</u>	<u>(3,003,392)</u>
Net cash provided (used) by investing activities	<u>165,850</u>	<u>(3,011,297)</u>
Net increase in cash and cash equivalents	601,011	1,432,774
Cash and cash equivalents at beginning of year	<u>2,244,947</u>	<u>812,173</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,845,958</u>	<u>\$ 2,244,947</u>
SUPPLEMENTAL INFORMATION:		
Donated Securities	<u>\$ 100,901</u>	<u>\$ 2,571,699</u>

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The National Archives Foundation (the Foundation), formerly the Foundation for the National Archives, a 501(c)(3) organization, is directed by men and women from the private sector who are dedicated to the institution that holds and preserves the records of the United States of America. The National Archives is guardian of the nation's most important and treasured documents. At the heart of its holdings are the Charters of Freedom: the Declaration of Independence, the Constitution and the Bill of Rights. These documents exist as the cornerstone of our society.

It is the mission of the Foundation to create public awareness of the importance of the National Archives as a cultural resource in the American democracy - a place where historians, seekers of justice and private citizens can find evidence on which truth is based.

The Foundation was created to support the Archivist of the United States in developing programs, technology, projects and materials that will introduce and interpret the Archives collection to the American people and to people around the world. The purpose of the Foundation is to educate, enrich and inspire a deeper appreciation of our country's heritage through the collected evidence of its history.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

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 generally accepted accounting principles.

Cash and cash equivalents -

The Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year the Foundation maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable approximate fair value. Management considers all amounts to be fully collectible.

Pledges receivable -

Pledges receivable approximate fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Pledges receivable (continued) -

Pledges receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Management reviews grants and accounts receivable and estimates their allowance for doubtful accounts based on past history.

At December 31, 2018, the balance in the allowance for doubtful accounts was \$10,560.

Fixed assets -

Fixed assets in excess of \$5,000 are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Foundation is not a private foundation.

Uncertain tax position -

For the year ended September 30, 2018, the Foundation has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of shop inventory. The Foundation reviews the value of its inventory on an annual basis. If inventory is deemed to be slow moving or obsolete, the Foundation will set up an allowance. There is no allowance at September 30, 2018.

For the year ended September 30, 2018, the Foundation adopted FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost or net realizable value using the first-in, first-out method of inventory. The ASU is applied prospectively.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Foundation and include both internally designated and undesignated resources.

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Net asset classification (continued) -

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in perpetuity by the Foundation. There are restrictions placed on the use of investment earnings from these endowment funds.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contributed goods and services -

Contributed goods and services consist of donated office space, legal services, advertising and other goods and services. Contributed goods and services are recorded at fair market value as of the date of the gift.

Membership revenue -

The Foundation recognizes member dues as revenue in the year the membership payment is received.

Gala contributions -

The Foundation receives contributions for their annual gala. A portion of the contribution is tax deductible and the balance is for seats and other goods at the gala. If the gala takes place during the year ended September 30, 2018, the contributions are recognized as unrestricted contributions and the cost of the seat is recorded as gala revenue. If the gala falls outside of the year ended September 30, 2018, the contributions will be restricted for time and the revenue will be deferred until the gala takes place.

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Foundation's financial statements, it is not expected to alter the Foundation's reported financial position.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Foundation has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Foundation plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at September 30, 2018:

	<u>Fair Value</u>
Stocks, options and exchange traded funds	\$ 2,818,190
Mutual funds	<u>1,020,969</u>
TOTAL INVESTMENTS	<u>\$ 3,839,159</u>

Included in investment income are the following:

Interest and dividends	\$ 70,903
Unrealized gain	136,518
Realized gain	61,641
Less investment fees	<u>(32,037)</u>
TOTAL INVESTMENT INCOME	<u>\$ 237,025</u>

3. PLEDGES RECEIVABLE

All pledges receivable are considered to be collectible within one year, unless otherwise stated by the donor.

NATIONAL ARCHIVES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

3. PLEDGES RECEIVABLE (Continued)

Pledges that will not be collected within one year have been discounted using an interest rate of 3.25% at September 30, 2018.

Following is a summary, by years, of pledges receivable, net of an allowance for doubtful accounts, as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Discounted Balance</u>	<u>Allowance</u>	<u>Net</u>
2018	\$ 648,350	\$ 10,560	\$ 637,790
2019	33,898	570	33,328
2020	32,831	570	32,261
2021	31,823	570	31,253
	<u>\$ 746,902</u>	<u>\$ 12,270</u>	<u>\$ 734,632</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30, 2018:

Digitization Grant	\$ 858,000
Ronald Reagan Library	649,704
Women's Exhibition	192,721
Capital Campaign	140,000
Special Events	142,500
Restricted for Time	168,000
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 2,150,925</u>

5. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at September 30, 2018, by either incurring expenses or the passage of time, which satisfied the restricted purposes specified by the donors. Releases consisted of the following:

Digitization Grant	\$ 465,000
Ronald Reagan Library	597,358
Women's Exhibition	327,280
Capital Campaign	60,000
Vietnam War	614,477
McGowan Theater Program	123,000
Emancipation Proclamation	100,000
July 4th	20,000
Passage of Time	417,172
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,724,287</u>

NATIONAL ARCHIVES FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

6. CONTRIBUTED GOODS AND SERVICES

The Foundation recognized contributed goods and services revenue of \$1,020,204 in 2018. To properly reflect expenses, the contributions have also been reflected in the appropriate natural expense category in the Statement of Functional Expenses.

Contributed goods and services consisted of the following at September 30, 2018:

Occupancy	\$	357,990
Legal		141,220
Advertising		507,514
Other goods and services		<u>13,480</u>
TOTAL CONTRIBUTED GOODS AND SERVICES	\$	<u>1,020,204</u>

7. PENSION PLAN

The Foundation offers a 401(k) plan for all eligible employees. All full-time employees are eligible to participate in the Plan after six months of employment at the Foundation. The Foundation matches all contributions up to five percent. For the year ended September 30, 2018, the Foundation contributed \$197,141 to the Plan.

8. ADVERTISING

The Foundation does significant advertising to promote the National Archives. The advertisements are done in visitor's guides and in Metro stations, as well as over the radio. In 2018, the Foundation spent \$806,830 on advertisements. All costs associated with advertising are expensed in the year they are incurred.

Included in the above mentioned amount, the Foundation received donated services related to advertising valued at \$507,514. This amount is reflected in advertising expense in the Statement of Functional Expenses.

9. ENDOWMENT

The Foundation's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditures or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. As a result of this interpretation, the Foundation has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

NATIONAL ARCHIVES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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9. ENDOWMENT (Continued)

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of September 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>649,704</u>	\$ <u>2,900,000</u>	\$ <u>3,549,704</u>

Changes in endowment net assets for the year ended September 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,138,681	\$ 2,900,000	\$ 4,038,681
Investment return:				
Investment income	-	36,881	-	36,881
Contributions	-	71,500	-	71,500
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(597,358)</u>	<u>-</u>	<u>(597,358)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>649,704</u>	\$ <u>2,900,000</u>	\$ <u>3,549,704</u>

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowment only):

	<u>2018</u>	<u>2017</u>
Permanently Restricted Net Assets:		
(1) The Portion of Perpetual Endowment Funds that is Required to be Retained Permanently Either by Explicit Donor Stipulation or by UPMIFA	\$ <u>2,900,000</u>	\$ <u>-</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. As of September 30, 2018, the endowment funds did not experience any deficiencies to be reported.

NATIONAL ARCHIVES FOUNDATION

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

9. ENDOWMENT (Continued)

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 programs 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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

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 targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Foundation has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

NATIONAL ARCHIVES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

10. FAIR VALUE MEASUREMENT (Continued)

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at September 30, 2018.

- *Stocks, options and exchange traded funds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the Foundation's investments as of September 30, 2018:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks, options and exchange traded funds	\$ 2,818,190	\$ -	\$ -	\$ 2,818,190
Mutual funds	<u>1,020,969</u>	<u>-</u>	<u>-</u>	<u>1,020,969</u>
TOTAL	<u>\$ 3,839,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,839,159</u>

There were no transfers between levels in the fair value hierarchy during the year ended September 30, 2018.

11. CONTINGENCY

During the year ended September 30, 2018, the Foundation identified an issue with respect to the collection of sales tax at the retail shop located within the National Archives Museum that the Foundation operates. The Foundation is committed to resolving this issue, has consulted with its auditors, and has retained tax counsel to assist in working with the District of Columbia government. As of September 30, 2018, there has been no determination of any liability.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 22, 2019, the date the financial statements were issued.