

National Desert Storm War Memorial Association

Independent Auditor's Report and Financial Statements

June 30, 2019

National Desert Storm War Memorial Association

June 30, 2019

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Independent Auditor's Report

Board of Directors
National Desert Storm War Memorial Association
Little Rock, Arkansas

We have audited the accompanying financial statements of National Desert Storm War Memorial Association, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 National Desert Storm War Memorial Association as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 13* to the financial statements, in 2019, the Association adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Little Rock, Arkansas
October 17, 2019

National Desert Storm War Memorial Association
Statement of Financial Position
June 30, 2019

Assets

Current Assets

Cash	\$ 129,464
Pledges receivable, net	232,558
Inventory	30,976
Investments	10,028
Prepaid expenses and other	<u>26,752</u>
Total current assets	<u>429,778</u>

Noncurrent Assets

Property and equipment, net	<u>7,248,455</u>
Total noncurrent assets	<u>7,248,455</u>
Total assets	<u><u>\$ 7,678,233</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	<u>\$ 510,235</u>
Total current liabilities	<u>510,235</u>

Net Assets

Without donor restrictions	1,085,440
With donor restrictions	<u>6,082,558</u>
Total net assets	<u>7,167,998</u>
Total liabilities and net assets	<u><u>\$ 7,678,233</u></u>

National Desert Storm War Memorial Association
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Public support	\$ 308,456	\$ 153,001	\$ 461,457
Contributed services	192,745	-	192,745
Merchandise sales	131,281	-	131,281
Special events revenue	102,230	-	102,230
Net assets released from restriction	100,000	(100,000)	-
	<u>834,712</u>	<u>53,001</u>	<u>887,713</u>
Expenses			
Management and general	198,125	-	198,125
Fundraising	378,192	-	378,192
	<u>576,317</u>	<u>-</u>	<u>576,317</u>
Change in Net Assets	<u>258,395</u>	<u>53,001</u>	<u>311,396</u>
Net Assets, Beginning of Year	<u>827,045</u>	<u>6,029,557</u>	<u>6,856,602</u>
Net Assets, End of Year	<u><u>\$ 1,085,440</u></u>	<u><u>\$ 6,082,558</u></u>	<u><u>\$ 7,167,998</u></u>

National Desert Storm War Memorial Association
Statement of Functional Expenses
Year Ended June 30, 2019

	Management and General	Fundraising	Total
Accounting services	\$ 100,945	\$ 56,292	\$ 157,237
Administrative supplies	82	-	82
Advertising	-	1,087	1,087
Cost of sales – merchandise	72,696	-	72,696
Depreciation	2,104	-	2,104
Sales fulfillment	-	18,013	18,013
Public relations	-	265,862	265,862
Insurance	2,601	-	2,601
Miscellaneous	9,858	8,230	18,088
Postage and mailing service	4,301	-	4,301
Printing and copying	168	-	168
Staff development	660	-	660
Telephone	1,520	-	1,520
Travel	3,190	28,708	31,898
	<u>\$ 198,125</u>	<u>\$ 378,192</u>	<u>\$ 576,317</u>

National Desert Storm War Memorial Association
Statement of Cash Flows
Year Ended June 30, 2019

Operating Activities	
Change in net assets	\$ 311,396
Items not requiring (providing) operating activities cash flows	
Depreciation	2,104
Contributed services for construction in progress	(101,745)
Contributed investments from a donor	(10,028)
Changes in	
Pledges receivable	(53,001)
Inventory	19,712
Prepaid expenses and other	(4,348)
Accounts payable	<u>103,601</u>
Net cash provided by operating activities	<u>267,691</u>
Investing Activities	
Purchases of property and equipment	<u>(262,367)</u>
Net cash used in investing activities	<u>(262,367)</u>
Increase in Cash	5,324
Cash, Beginning of Year	<u>124,140</u>
Cash, End of Year	<u><u>\$ 129,464</u></u>
Supplemental Cash Flows Information	
Construction in progress recorded in accounts payable	\$ 390,685
Inventory recorded in accounts payable	\$ 13,895

National Desert Storm War Memorial Association

Notes to Financial Statements

June 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

National Desert Storm War Memorial Association (the Association) is a not-for-profit organization formed in 2011 primarily to construct a memorial in Washington D.C. honoring the more than half million American servicemen and women who served in Operation Desert Storm/Desert Shield. The National Desert Storm War Memorial will be a tribute to those who served, those who stood behind them—and most importantly—the 292 U.S. servicemen and women who gave the ultimate sacrifice. The Association is supported primarily by funding contributions received from various veterans groups and individual contributors and corporations.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories consist of clothing, challenge coins and other souvenirs. Inventories are stated at the lower of cost or net realizable value. Costs of \$30,976 are determined using the first-in, first-out (FIFO) method.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value are carried at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

National Desert Storm War Memorial Association

Notes to Financial Statements

June 30, 2019

Property and Equipment

Property and equipment acquisitions over \$1,000 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Amounts recorded in construction in progress relate to architectural design fees and related environmental studies.

Long-Lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

National Desert Storm War Memorial Association

Notes to Financial Statements

June 30, 2019

Contributions

Contributions are provided to the Association either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Association overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

National Desert Storm War Memorial Association

Notes to Financial Statements

June 30, 2019

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated (see *Note 5*).

However, the Association has many individuals that volunteer their time and perform a variety of tasks that assist with specific program services, campaign solicitations and various committee assignments, which do not meet the criteria for recording in the financial statements. Specifically, the management team has volunteered approximately 12,816 hours, and other volunteers and committee members have volunteered approximately 3,275 hours.

Income Taxes

The Association is exempt from income taxes under Section 501 of the U.S. Internal Revenue Code and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business taxable income.

The Association files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among management and general and fundraising based on actual direct expenditures and cost allocations derived from estimates of time spent by the Association's personnel.

Subsequent Events

Subsequent events have been evaluated through October 17, 2019, which is the date the financial statements were available to be issued.

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

Note 2: Pledges Receivable

Pledges receivable consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Due within one year	\$ -	\$ 250,000	\$ 250,000
Less			
Unamortized discount	-	17,442	17,442
	\$ -	\$ 232,558	\$ 232,558

Discount rate is 7.5%

Note 3: Conditional Gifts

During 2019, the Association received a conditional promise to give of \$200,000 that is not recognized in the financial statements. This promise is conditional upon the Association obtaining \$39,800,000 in funding to complete The National Desert Storm War Memorial.

Note 4: Property and Equipment

Property and equipment at June 30, 2019 consists of:

Land	\$ 5,850,000
Construction in progress	1,398,455
	7,248,455
 Accumulated depreciation	 -
	 \$ 7,248,455

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

Note 5: Contributed Services

Contribution revenue recognized from contributed services consisted of the following:

Management and general	
Accounting services	\$ 91,000
Total management and general	91,000
Noncurrent assets	
Architectural design services ⁽¹⁾	101,745
Total noncurrent assets	101,745
Total contributed services	\$ 192,745

⁽¹⁾ Recorded in construction in progress

Note 6: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Land granted for memorial	\$ 5,850,000
Subject to passage of time	
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	232,558
	\$ 6,082,558

Net Assets Released from Restrictions

At June 30, 2019, net assets of \$100,000 were released from donor restriction by expiration of the time restriction specified by donors.

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

Note 7: Liquidity and Availability

The Association has various sources of liquidity at its disposal, including cash, and regularly monitors liquidity required to meet general expenditures and other obligations as they become due.

The Association manages liquidity and reserves following two guiding principles: operate within a prudent range of financial soundness and stability and maintain adequate liquid assets to fund near-term operating needs. The Association has a liquidity policy to maintain current financial assets to fund operating expenses and working capital. To achieve these targets, the Association forecasts future cash flows and monitors liquidity monthly. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

As of June 30, 2019, the following table shows the total financial assets held by the Association and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$	129,464
Pledges receivable, net		232,558
Investments		10,028
	\$	372,050

Note 8: Related Party Transactions

During 2019, a member of the board of directors donated contributed services with a fair market value of \$91,000 for professional accounting services. Another member of the board of directors was paid \$48,000 for management services rendered.

Note 9: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Equity securities	\$ 10,028	\$ 10,028	\$ -	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019. The Association had no liabilities measured at fair value on a recurring basis. In addition, the Association had no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

Note 10: Contractual Commitments

At June 30, 2019, the Association had entered into three professional services contracts for architectural designs, site studies and civil engineering.

The approximate value of contracts and amounts remaining outstanding at June 30, 2019, were:

	Contract Amount	Amount Remaining Outstanding
Site studies	\$ 304,070	\$ 22,398
Architectural design plans	\$ 1,068,686	\$ 452,448
Civil engineering	\$ 57,550	\$ 57,550

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Concentration in Pledges Receivable

As of June 30, 2019, 100 percent of pledges receivable were from two donors.

Concentration in Contributed Services

At June 30, 2019, approximately 47 percent of contributed services was from a single donor (see *Note 5*).

Cash

At June 30, 2019, the Association had approximately \$56,000 in uninsured cash.

National Desert Storm War Memorial Association

Notes to Financial Statements

June 30, 2019

Note 12: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Association is in the process of evaluating the effect the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Association is evaluating the effect the standard will have on the financial statements; however, the standard is not expected to have a material effect on the financial statements.

National Desert Storm War Memorial Association
Notes to Financial Statements
June 30, 2019

Note 13: Change in Accounting Principle

In 2019, the Association, adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Statement of Functional Expenses

- Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.