

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021**



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**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Naval Institute and Affiliate
Annapolis, Maryland

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the United States Naval Institute and Affiliate (collectively referred to as the Institute), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022 the Institute adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Baltimore, Maryland
May 11, 2023

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

ASSETS	<u>2022</u>	<u>2021</u>
Cash	\$ 3,424,864	\$ 5,462,508
Accounts Receivable, Less Allowance for Doubtful Accounts of \$88,904 in 2022 and \$125,201 in 2021	1,450,378	1,581,154
Contributions Receivable, Net	6,009,101	8,511,038
Inventory	3,239,531	2,518,373
Prepaid Expenses and Other Assets	415,455	225,766
Investments, at Fair Value	5,015,603	5,642,555
Property and Equipment, Net	2,025,654	2,179,114
Asset Held for Transfer	28,188,138	27,816,325
Deferred Publishing Costs	472,086	521,911
	<u> </u>	<u> </u>
Total Assets	<u>\$ 50,240,810</u>	<u>\$ 54,458,744</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,415,938	\$ 3,807,631
Deferred Revenue	2,248,945	2,235,957
Unfunded Pension Obligation	518,638	749,563
Lease Obligation	57,129	90,072
Line of Credit	5,500,000	6,250,000
Total Liabilities	<u>9,740,650</u>	<u>13,133,223</u>
NET ASSETS		
Without Donor Restrictions	34,576,010	34,879,951
With Donor Restrictions:		
Time or Purpose Restrictions	5,061,387	5,404,685
Subject to Spending Policy	(33,920)	144,202
Endowment	896,683	896,683
Total Net Assets With Donor Restrictions	<u>5,924,150</u>	<u>6,445,570</u>
Total Net Assets	<u>40,500,160</u>	<u>41,325,521</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 50,240,810</u>	<u>\$ 54,458,744</u>

See accompanying Notes to Consolidated Financial Statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total 2022
REVENUES, INVESTMENT ACTIVITY, AND PUBLIC SUPPORT			
Publication Sales	\$ 3,758,312	\$ -	\$ 3,758,312
Membership Dues and Subscriptions	1,602,669	-	1,602,669
Contributions	3,158,488	1,809,043	4,967,531
Advertising	369,871	-	369,871
Conference Income	1,524,964	-	1,524,964
Investment Income, Net	103,917	4,146	108,063
Net Realized and Unrealized Gain (Loss) on Investments	(448,825)	(182,271)	(631,096)
Royalties	105,614	-	105,614
Other Income	11,005	-	11,005
Net Assets Released from Restrictions:			
Satisfaction of Program and Time Restrictions	2,152,338	(2,152,338)	-
Total Revenues, Investment Activity, and Public Support	12,338,353	(521,420)	11,816,933
EXPENSES			
Program Services:			
Publishing Costs	5,928,413	-	5,928,413
Conference Expenses	883,943	-	883,943
Royalties	403,260	-	403,260
Special Projects	251,955	-	251,955
Other	120,621	-	120,621
Total Program Services	7,588,192	-	7,588,192
Supporting Services:			
Administrative Costs	3,521,158	-	3,521,158
Fundraising Expense	1,434,358	-	1,434,358
Membership Development	319,511	-	319,511
Total Supporting Services	5,275,027	-	5,275,027
Total Expenses	12,863,219	-	12,863,219
Change in Net Assets from Operating Activities	(524,866)	(521,420)	(1,046,286)
Nonoperating:			
Net Periodic Pension Costs and Changes in Plan's Net Assets	220,925	-	220,925
Change in Net Assets from Nonoperating Activities	220,925	-	220,925
CHANGES IN NET ASSETS	(303,941)	(521,420)	(825,361)
Net Assets - Beginning of Year	34,879,951	6,445,570	41,325,521
NET ASSETS - END OF YEAR	<u>\$ 34,576,010</u>	<u>\$ 5,924,150</u>	<u>\$ 40,500,160</u>

See accompanying Notes to Consolidated Financial Statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total 2021
REVENUES, INVESTMENT ACTIVITY, AND PUBLIC SUPPORT			
Publication Sales	\$ 5,383,905	\$ -	\$ 5,383,905
Membership Dues and Subscriptions	1,590,536	-	1,590,536
Contributions	2,128,330	6,209,255	8,337,585
Advertising	449,198	-	449,198
Conference Income	229,810	-	229,810
Investment Income, Net	109,261	-	109,261
Net Realized and Unrealized Gain (Loss) on Investments	1,038,562	109,289	1,147,851
Royalties	115,836	-	115,836
Other Income	5,262	-	5,262
Net Assets Released from Restrictions:			
Satisfaction of Program and Time Restrictions	13,369,288	(13,369,288)	-
Total Revenues, Investment Activity, and Public Support	24,419,988	(7,050,744)	17,369,244
EXPENSES			
Program Services:			
Publishing Costs	5,923,114	-	5,923,114
Conference Expenses	707,593	-	707,593
Royalties	430,699	-	430,699
Special Projects	244,344	-	244,344
Other	154,013	-	154,013
Total Program Services	7,459,763	-	7,459,763
Supporting Services:			
Administrative Costs	2,975,737	-	2,975,737
Fundraising Expense	1,386,859	-	1,386,859
Membership Development	389,363	-	389,363
Total Supporting Services	4,751,959	-	4,751,959
Total Expenses	12,211,722	-	12,211,722
Change in Net Assets from Operating Activities	12,208,266	(7,050,744)	5,157,522
Nonoperating:			
Net Periodic Pension Costs and Changes in Plan's Net Assets	142,211		142,211
Employee Retention Credit	827,377	-	827,377
PPP Loan Forgiveness	1,105,100	-	1,105,100
Change in Net Assets from Nonoperating Activities	2,074,688	-	2,074,688
CHANGES IN NET ASSETS	14,282,954	(7,050,744)	7,232,210
Net Assets - Beginning of Year	20,596,997	13,496,314	34,093,311
NET ASSETS - END OF YEAR	\$ 34,879,951	\$ 6,445,570	\$ 41,325,521

See accompanying Notes to Consolidated Financial Statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022**

	Program Services						Supporting Services				Total 2022 Expenses
	Publishing Costs	Conference Expenses	Royalties	Special Projects	Other	Total Program Services	Administrative Costs	Fundraising	Membership Development	Total Supporting Services	
EXPENSES											
Salaries and Benefits	\$ 2,951,134	\$ 598,427	\$ -	\$ 175,671	\$ -	\$ 3,725,232	\$ 1,528,248	\$ 980,696	\$ 227,366	\$ 2,736,310	\$ 6,461,542
Cost of Goods Sold	1,529,923	-	-	-	-	1,529,923	-	-	-	-	1,529,923
Marketing	102,629	11,494	-	-	74,591	188,714	-	-	77,725	77,725	266,439
Office and Production	400,625	17,446	-	22,789	-	440,860	323,843	146,194	3,280	473,317	914,177
Postage and Freight	473,462	119	-	-	-	473,581	4,442	-	-	4,442	478,023
Royalties	-	-	403,260	-	-	403,260	-	-	-	-	403,260
Occupancy	215,764	-	-	-	-	215,764	71,900	8,989	-	80,889	296,653
Travel	29,528	14,570	-	-	-	44,098	54,652	20,014	7,805	82,471	126,569
Information Technology	-	-	-	-	-	-	146,493	71,957	-	218,450	218,450
Conferences and Meetings	45,098	241,887	-	-	-	286,985	-	-	-	-	286,985
Accounting and Legal	-	-	-	-	-	-	276,255	72,191	-	348,446	348,446
Awards and Contests	-	-	-	-	-	-	94,745	-	-	94,745	94,745
Consultants and Other Service Fees	157,908	-	-	50,495	-	208,403	650,050	80,646	3,335	734,031	942,434
Insurance	-	-	-	-	-	-	96,633	18,885	-	115,518	115,518
Depreciation	-	-	-	-	-	-	265,516	-	-	265,516	265,516
Other	22,342	-	-	3,000	46,030	71,372	8,381	34,766	-	43,167	114,539
Total Expenses	\$ 5,928,413	\$ 883,943	\$ 403,260	\$ 251,955	\$ 120,621	\$ 7,588,192	\$ 3,521,158	\$ 1,434,358	\$ 319,511	\$ 5,275,027	\$ 12,863,219

See accompanying Notes to Consolidated Financial Statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021**

	Program Services						Supporting Services					Total 2021 Expenses
	Publishing Costs	Conference Expenses	Royalties	Special Projects	Other	Total Program Services	Administrative Costs	Fundraising	Membership Development	Supporting Services	Total	
EXPENSES												
Salaries and Benefits	\$ 2,873,611	\$ 467,300	\$ -	\$ 160,540	\$ -	\$ 3,501,451	\$ 1,481,583	\$ 1,033,546	\$ 279,447	\$ 2,794,576	\$ 6,296,027	
Cost of Goods Sold	1,752,214	-	-	-	-	1,752,214	-	-	-	-	1,752,214	
Marketing	105,001	91,220	-	-	80,728	276,949	-	-	90,573	90,573	367,522	
Office and Production	385,084	10,029	-	39,424	-	434,537	56,343	118,842	4,002	179,187	613,724	
Postage and Freight	447,628	-	-	-	-	447,628	4,550	-	-	4,550	452,178	
Royalties	-	-	430,699	-	-	430,699	-	-	-	-	430,699	
Occupancy	226,103	-	-	-	-	226,103	44,813	7,288	-	52,101	278,204	
Travel	6,032	4,226	-	-	-	10,258	15,106	2,922	4,994	23,022	33,280	
Information Technology	-	-	-	-	-	-	130,056	87,530	1,600	219,186	219,186	
Conferences and Meetings	6,517	134,818	-	-	-	141,335	-	-	-	-	141,335	
Accounting and Legal	-	-	-	-	-	-	178,938	73,538	-	252,476	252,476	
Awards and Contests	-	-	-	88	-	88	101,093	-	-	101,093	101,181	
Consultants and Other Service Fees	120,789	-	-	43,792	-	164,581	711,707	-	8,747	720,454	885,035	
Insurance	-	-	-	-	-	-	87,287	19,548	-	106,835	106,835	
Depreciation	-	-	-	-	-	-	155,381	-	-	155,381	155,381	
Other	135	-	-	500	73,285	73,920	8,880	43,645	-	52,525	126,445	
Total Expenses	\$ 5,923,114	\$ 707,593	\$ 430,699	\$ 244,344	\$ 154,013	\$ 7,459,763	\$ 2,975,737	\$ 1,386,859	\$ 389,363	\$ 4,751,959	\$ 12,211,722	

See accompanying Notes to Consolidated Financial Statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (825,361)	\$ 7,232,210
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	265,509	155,381
Increase (Decrease) in Inventory Reserve	46,859	(14,337)
Increase (Decrease) in Allowance for Doubtful Accounts and Contributions Receivable	(51,297)	(247,714)
Amortization of Discount on Promises to Give	105,890	20,525
Net Unrealized and Realized Losses (Gains) on Investments	631,096	(1,147,851)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	167,073	(790,160)
Contributions Receivable	2,411,047	(1,106,314)
Inventory	(768,017)	60,804
Prepaid Expenses and Other Assets	(189,689)	160,081
Deferred Publishing Costs	49,825	(35,293)
Accounts Payable and Accrued Expenses	(2,391,693)	(588,441)
Deferred Revenue	12,988	84,011
Unfunded Pension Obligation	<u>(230,925)</u>	<u>(182,211)</u>
Net Cash Provided (Used) by Operating Activities	<u>(766,695)</u>	<u>3,600,691</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(483,870)	(8,883,460)
Purchases of Investments	(108,063)	(109,261)
Proceeds from Sales and Maturities of Investments	103,919	93,979
Net Cash Used by Investing Activities	<u>(488,014)</u>	<u>(8,898,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Lease Obligations	(32,935)	(7,878)
(Payments) Draws on Line of Credit	<u>(750,000)</u>	<u>6,250,000</u>
Net Cash Provided (Used) by Financing Activities	<u>(782,935)</u>	<u>6,242,122</u>
NET INCREASE (DECREASE) IN CASH	<u>(2,037,644)</u>	<u>944,071</u>
Cash - Beginning of Year	<u>5,462,508</u>	<u>4,518,437</u>
CASH - END OF YEAR	<u>\$ 3,424,864</u>	<u>\$ 5,462,508</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Accounts Payable for Property and Equipment	\$ 492,717	\$ 1,860,230
Equipment Financed through Capital Lease Arrangement	97,950	97,950
Total	<u>\$ 590,667</u>	<u>\$ 1,958,180</u>

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The United States Naval Institute (the Institute) is a nonprofit member association, with no government support, formed in 1873 to provide an independent forum for those who dare to read, think, speak, and write to advance the professional, literary, and scientific understanding of sea power and other issues critical to global security. The membership includes officers and enlisted personnel of all branches of the military services, officers of foreign navies, and United States and foreign citizens.

The Naval Institute Foundation, Inc. (the Foundation) was organized exclusively to raise funds for charitable and educational purposes to further the mission and policies of the United States Naval Institute. Funds raised are to be used as directed by the Foundation Board of Trustees.

The Trustees manage the business and affairs of the Foundation provided all action taken by the Foundation's Board shall be strictly in compliance with the policies of the Institute's Board of Directors. Therefore, the Foundation is included in the consolidated financial statements of the Institute as an affiliate.

Basis of Accounting

The Institute prepares its consolidated financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles as they pertain to nonprofit organizations. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The financial statement presentation is in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Consolidation Policy

The accompanying consolidated financial statements include the accounts of the United States Naval Institute and its affiliate, the Naval Institute Foundation, Inc. and are collectively referred to as the Institute. All significant transactions between the organizations, including all inter-organizational accounts and transactions have been eliminated in consolidation.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed 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 donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. Net assets with donor restrictions consist of the unspent portion of donor-restricted contributions received by the Institute for various programs and investment income earned on contributions to be held in perpetuity. Any donor restricted resource that is received and used during the same year is considered an unrestricted resource and is reported as support and expense without donor restrictions.

Other net assets with donor restrictions may consist of assets whose use by the Institute is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Institute. The restrictions stipulate that resources be maintained permanently but permit the Institute to expend the income generated in accordance with the provisions of the agreement.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Institute maintains all of its cash in one commercial bank located in Charlotte, North Carolina. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Total cash held by the bank was \$3,783,971 and \$5,628,315 at December 31, 2022 and 2021, respectively.

Accounts Receivable and Allowance for Doubtful Amounts

Accounts receivable are customer obligations due under normal trade terms. The allowance for doubtful amounts is based on certain percentages of aged receivables, which are determined based on management's historical experience and assessment of the general financial conditions affecting the customer base.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Allowance for Doubtful Amounts (Continued)

If actual collections experience changes, revisions to the allowance may be required. A limited number of customers have individually large amounts due at any given date. Any unanticipated change in one of those customers' credit worthiness or other matters affecting the collectability of amounts due from such customers could have a material effect on the Institute's changes in net assets in the period in which such changes or events occur. An account is delinquent when payment is not received by the payment terms agreed to by the customer and the Institute. Payment terms vary by customer and are based on credit worthiness and history with the customer. The Institute does not charge interest to customers with account balances past due. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are not included as support until the conditions are substantially met.

The Institute uses the allowance method to determine the uncollectible amounts of contributions receivable. The allowance is based upon prior years' experience and management's analysis of subsequent collections.

As of December 31, 2022 and 2021, the Institute believes that the allowance for uncollectible amounts is adequate.

Inventory

Inventories are carried at the lower of cost or net realizable value, and are valued using the average cost method of inventory valuation. Included in inventory are costs of publications held for sale and production costs of publications not completed at year-end.

The Institute has established an allowance for obsolete inventory based on management's analysis and prior sales history.

Investments

Investments are reported at fair value. 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. See Note 3 for discussion of fair value measurements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Net appreciation or depreciation in fair value of investments includes gains and losses on investments bought and sold as well as held during the year. Investment income or loss is included in the change in net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

Endowment Fund Management Policy

The Foundation adopted the guidance for accounting and disclosure of endowment funds, which requires that the amount classified as with donor restrictions in perpetuity shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the organization's governing board, must be retained permanently consistent with the relevant law.

Property and Equipment

Property and equipment are recorded at historical cost or, if donated, such assets are capitalized at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the following estimated useful lives:

Office Facilities	10 to 30 Years
Furniture and Fixtures	3 to 10 Years
Automobiles and Equipment	3 to 10 Years

The Institute capitalizes fixed assets with a useful life greater than one year and with an individual original cost of \$3,000 or greater. When assets are sold or disposed of, the cost and corresponding accumulated depreciation and amortization are removed from the books with any gain or loss recognized currently. Expenditures for repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets

The Institute reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Held for Transfer

The Institute placed the Jack C. Taylor Conference Center into service during 2021 upon use of the new space. This asset sits on the property of the United States Naval Academy and, as such, the Institute and the Navy agreed to terms to transfer the asset to the Navy. The transfer is expected to occur in 2023. The asset is held at carrying value and no depreciation has been recorded as of December 31, 2022.

Leases

The Institute determines if an arrangement is a lease at inception. Operating and financing leases are included in right-of-use (ROU) assets and lease liability in the balance sheet.

ROU assets represent the Institute's right to use an underlying asset for the lease term and lease liabilities represent the Institute's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Institute will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

When individual lease contracts do not provide information about the discount rate implicit in the lease, the Institute uses a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

Income Taxes

The Institute and Foundation have been granted exemptions by the Internal Revenue Service (IRS) from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The IRS has also determined that the Institute is not a private foundation. Separate tax returns are filed for the Institute and Foundation. The Institute and Foundation are required to report unrelated business income to the IRS and Maryland, as well as pay certain other taxes to local jurisdictions.

The Institute and Foundation adopted the guidance for accounting for uncertainty in income taxes. Management has determined that the Institute has no material uncertain tax positions that would require recognition under the guidance.

Revenue Recognition

Publication Sales

Revenue from the sale of books is recognized at the time the sale occurs and the publications have been shipped to the customer.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Membership Dues and Subscriptions

Membership dues cycles are on an anniversary-date basis and are recognized ratably over the membership period since the memberships include a periodical received on a monthly basis. Members also receive access to the organization's online database, publication discounts, invitation to Institute events, and access to the periodical archive. Membership terms can be one year, three years, or a life membership which is recognized over 22 years.

Subscription revenue includes fees for a monthly periodical. The organization recognizes revenue from this service on a ratable basis over the contract term.

Advertising Income

Advertising revenues are recognized in the period when advertising is printed or placed in Institute publications. Amounts received in advance of printing are recorded as deferred revenue.

Conference Income

Conference revenue is recognized when the conference is held. Amounts received in advance of the event are recorded as deferred revenue.

Royalties

Royalties received in advance for publications and other receipts received in advance are deferred and recognized as revenue over the length of the royalty and other agreed upon terms. Advance royalties on unpublished manuscripts for books awaiting publication will offset future royalty payments when the manuscripts become part of a published product or will be expensed if the project is abandoned.

Contributions, Grants, and Donated Assets Under ASC 958

Contributions, donated marketable securities, and other noncash donations received by the Foundation are presented at their fair values on the date of such gifts. Contributions are reported in accordance with the provisions of FASB ASC 958-605, which defines a contribution as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

ASC 958-605, *Contribution Guidance*, has been applied to the employee retention credit income as these are seen as government grants in which the conditions have been met for quarter two and quarter three of 2021 in the amount of \$827,377, presented as nonoperating income in the Consolidated Statement of Activities for the year ended December 31, 2022. No such activity occurred for the year ended December 31, 2022.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Direct expenses are charged to program, overhead, or fundraising as needed. Payroll costs are charged directly to departments. The Organization then utilizes a common cost allocation methodology for expenses such as telephone, insurance, technology, depreciation, etc. and on a monthly basis allocates these costs based on a budgeted percentage for each department. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Description of Program and Supporting Services

The following programs and supporting services are included in the accompanying consolidated financial statements.

Publishing Costs

Includes costs of producing Proceedings which is an independent, open forum for articles from naval professionals and civilian contributors featuring current professional topics and issues. Also, Naval History magazine showcases historical topics with focus on the sea services. Additionally, the Naval Institute Press, which is the book-publishing arm of the Naval Institute publishes about seventy titles each year, ranging from books on navigation to battle histories, United States Naval Academy textbooks and reference books, biographies, ship and aircraft guides, and novels.

Conference Expenses

The Institute provides for various seminars and meetings throughout its fiscal year on current and historical topics. These meetings offer a concentrated opportunity for the exchange of ideas and discussion of key naval issues among naval professionals and others.

Royalties

Represent agreed-upon payments made by the Institute to various authors for their respective books. The amount of the royalty is based upon the actual sales of the respective books and any sales of subsidiary rights.

Special Projects

Represent various projects undertaken to advance the professional, literary, and scientific understanding of sea power and other issues critical to global security.

Other

Represent other expenses necessary to further the mission and policies of the Institute.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Program and Supporting Services (Continued)

Administrative Costs

Includes the expenditures necessary to secure proper administrative functioning of the Institute including managing the financial and budgetary responsibilities of the Institute and supporting the board of directors.

Fundraising Expense

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Membership Development

Membership development activities include soliciting for prospective members, membership relations, and similar activities.

Financial Instruments and Credit Risk

Financial instruments, which potentially subject the Institute to concentration of risk, consist principally of cash and investments. The Institute places its cash and investments with creditworthy financial institutions. At times, cash balances may exceed federally insured limits. The Institute has not experienced any losses in such accounts. Risk with respect to investments is generally limited, because by policy, the investments are kept within limits.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842). This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Adoption of this standard had no impact on the assets, liabilities, net assets or change in net position for the Institute.

The Institute has adopted the accounting guidance in the FASB Accounting Standards Updated (ASU) 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets* issued September 2020. The objective of the updated it to increase transparency of contributed nonfinancial assets for nonprofit entities by providing new presentation and disclosure requirements about contributed nonfinancial assets for nonprofits, including additional disclosure requirements for recognized contributed services. Adoption of this ASU had no impact on the Institute's financial statements.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31:

	2022		2021	
	Cost	Market	Cost	Market
TIFF Multi-Asset Fund	\$ 1,147,899	\$ 996,389	\$ 1,055,011	\$ 1,174,515
Corporate Stock	1,115,546	3,982,254	1,115,546	4,431,080
Certificates of Deposit	36,960	36,960	36,960	36,960
Total	<u>\$ 2,300,405</u>	<u>\$ 5,015,603</u>	<u>\$ 2,207,517</u>	<u>\$ 5,642,555</u>

The following schedule summarizes the investment return for the years ended December 31:

	2022	2021
Investment Income	\$ 108,063	\$ 109,261
Realized/Unrealized Gain (Loss), Net	(631,096)	1,147,851
Total	<u>\$ (523,033)</u>	<u>\$ 1,257,112</u>

Investment income is net of management fees amounting to \$1,093 and \$2,875 in 2022 and 2021, respectively.

NOTE 3 FAIR VALUE MEASUREMENT

In determining fair value, the Institute uses valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets to which the Institute has 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 liabilities.
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

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

The asset 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021:

TIFF Multi-Asset Fund: The foundation is invested in the TIFF Investment Program (TIP) Multi-Asset Fund (MAF), a no-load mutual fund available primarily to foundations, endowments, and other 501(c)(3) organizations. TIFF Advisory Services, Inc. (TAS) serves as the investment advisor to the funds. MAF operates primarily on a multi-manager basis, and TAS has responsibility for the task of selecting money managers and other vendors for the fund as well as asset allocation. TIFF's investment team and boards recently updated MAF's Constructed Index (CI), a blended benchmark and policy portfolio. TAS believes that the CI is a relevant performance benchmark for both short- and long-term periods.

The TAS and TIP boards view the CI, in general, as an appropriate long-term asset mix for nonprofit organizations that seek to maintain the inflation-adjusted value of their assets while distributing 5% of these assets annually. The CI is also intended to help such organizations better assess MAF's performance by providing a comparison of the active strategies pursued by TAS and external managers versus the returns of relevant benchmarks. The current CI is a blended index comprised of the following three broad investment categories, weighted according to policy norms, with each category assigned a benchmark selected by TAS:

Equity-Oriented Assets, the primary long-term driver of portfolio returns, may include global equity, high yield bonds, resource-related equity, and REITs.

Diversifying Strategies, to generate meaningful returns while reducing equity market sensitivity, may include hedge funds, asset-backed securities, commodity futures, and opportunistic credit.

Fixed Income, to provide diversification, liquidity, and income, may include conventional bonds, TIPS, and cash.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

Uncertainty and risk exists in that the fund may use leverage; invest in illiquid securities, non-US securities, small capitalization stocks, derivatives, and below investment grade bonds; and engage in short-selling. However, the Institute's exposure with respect to these investment activities is limited to its carrying amount in the investments. The Institute does not directly invest in the underlying securities of the investment funds, and due to restrictions on transferability and timing of withdrawals from the multi-asset fund, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions. These investments are classified as investments accounted for at net asset value per share and excluded from the fair market value hierarchy.

There were no unfunded commitments, and the redemption frequency and notice period were daily for the TIFF Multi-Asset fund for the years ended December 31, 2022 and 2021.

Certificates of Deposit: Certificates of deposit are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type). The Institute's investments in certificates of deposit consist of securities earning a fixed interest rate with a maturity of longer than three months. The certificates of deposit are valued based on the cost of the security and the stated rate of interest the security is expected to yield. This investment is classified within Level 2 of the valuation hierarchy.

Corporate Stock: Corporate stocks listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. These investments are classified within Level 1 of the valuation hierarchy.

Below sets forth a table of assets measured at fair value as of December 31, 2022 and 2021.

Description	2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets and Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2022	Total Investments as of December 31, 2022
Corporate Stock	\$ 3,982,254	\$ -	\$ -	\$ 3,982,254	\$ 3,982,254
Certificates of Deposit	-	36,960	-	36,960	36,960
Investments Accounted for at Net Asset Value Per Share	-	-	-	-	996,389
Total	\$ 3,982,254	\$ 36,960	\$ -	\$ 4,019,214	\$ 5,015,603

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

Description	2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets and Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2021	Total Investments as of December 31, 2021
Corporate Stock	\$ 4,431,080	\$ -	\$ -	\$ 4,431,080	\$ 4,431,080
Certificates of Deposit	-	36,960	-	36,960	36,960
Investments Accounted for at Net Asset Value Per Share	-	-	-	-	1,174,515
Total	<u>\$ 4,431,080</u>	<u>\$ 36,960</u>	<u>\$ -</u>	<u>\$ 4,468,040</u>	<u>\$ 5,642,555</u>

Investments accounted for at fair value using the net asset value per share (or its equivalent as a practical expedient) are not categorized in the fair value hierarchy but rather shown only in the total column. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented as investments in the consolidated statements of financial position.

NOTE 4 INVENTORY

Inventory consists of the following at December 31:

	2022	2021
Publications Held for Sale	\$ 3,624,324	\$ 2,936,215
Prepublication Costs	238,018	158,110
Subtotal	3,862,342	3,094,325
Less: Allowance for Obsolete Inventory	622,811	575,952
Total	<u>\$ 3,239,531</u>	<u>\$ 2,518,373</u>

NOTE 5 CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable consist of the following at December 31:

	2022	2021
Unconditional Promises to Give	\$ 6,309,363	\$ 8,720,410
Less: Discount to Present Value	290,262	184,372
Subtotal	6,019,101	8,536,038
Less: Allowance for Uncollectible Amounts	10,000	25,000
Net Unconditional Promises to Give	<u>\$ 6,009,101</u>	<u>\$ 8,511,038</u>
Amounts Due in:		
Less Than One Year	2,439,202	3,047,416
One to Five Years	3,870,161	5,672,994
Total	<u>\$ 6,309,363</u>	<u>\$ 8,720,410</u>

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 5 CONTRIBUTIONS RECEIVABLE, NET (CONTINUED)

The revenue related to multi-year contribution receivables are classified as revenue with donor restrictions in the accompanying consolidated statements of activities due to time restrictions. Discount rates of 7.50% and 3.25% were used to calculate the net present value of pledges to be collected in one to five years as of December 31, 2022 and 2021, respectively.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2022	2021
Office Facilities	\$ 3,384,256	\$ 3,354,510
Computer Equipment and Software	1,150,470	1,176,135
Furniture, Fixtures, and Office Equipment	663,923	663,624
Subtotal	5,198,649	5,194,269
Less: Allowance for Depreciation and Amortization	3,172,995	3,015,155
Total	\$ 2,025,654	\$ 2,179,114

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was \$265,516 and \$155,381, respectively.

NOTE 7 LINE OF CREDIT

In September 2020, the Institute obtained a \$7,000,000 line of credit with a community bank that expires in November 2025. The purpose of the financing arrangement is to supplement funding for construction of the conference center. Advances on the credit line accrue interest at the bank's prime rate and are secured by the Foundation's pledges receivable. The balance on the credit line was \$5,500,000 and \$6,250,000 as of December 31, 2022 and 2021, respectively.

NOTE 8 COMMITMENTS/CONTINGENCIES

Contract with Key Employees

The Institute has executed one employment contract with a key employee, which will continue unless terminated in accordance with the terms of the agreement. In the event of termination without cause, the Institute guarantees lump sum payments ranging from three months up to six months of the annual base salary plus a prorated amount of any annual performance bonus that would have been received in the year in which the employment was terminated.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 COMMITMENTS/CONTINGENCIES (CONTINUED)

Construction Commitments

The Institute entered into two construction contracts totaling \$23,205,661 during 2019 for the construction of the Jack C. Taylor Conference Center. Subsequent change orders in the amount of \$1,652,121 were agreed upon, totaling \$24,857,782 in total construction commitments. At December 31, 2022 and 2021, \$0 and \$604,854 remained due on the outstanding contracts, respectively.

NOTE 9 REVENUE

The following table shows the Institute's revenue disaggregated according to the timing of the transfer of goods or services:

	<u>2022</u>	<u>2021</u>
Revenue Recognized as a Point in Time		
Publication Sales	\$ 3,758,312	\$ 5,383,905
Advertising	369,871	449,198
Conference Income	1,524,964	229,810
Total Revenue Recognized as a Point in Time	<u>\$ 5,653,147</u>	<u>\$ 6,062,913</u>
Revenue Recognized Over Time:		
Membership Dues and Subscriptions	\$ 1,602,669	\$ 1,590,536
Royalties	105,614	115,836
Total Revenue Recognized Over Time	<u>\$ 1,708,283</u>	<u>\$ 1,706,372</u>

NOTE 10 CONTRACT LIABILITIES

The Institute's contract liabilities consist of as of December 31:

	<u>2022</u>	<u>2021</u>
Deferred Revenue - Membership Dues and Subscriptions	\$ 2,163,470	\$ 2,177,827
Deferred Revenue - Conferences	62,975	33,000
Deferred Revenue - Miscellaneous	22,500	25,130
Total Deferred Revenue	<u>\$ 2,248,945</u>	<u>\$ 2,235,957</u>

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
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DECEMBER 31, 2022 AND 2021**

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specific Purpose:		
Conference Center	\$ 117,995	\$ 390,784
Essay Contests	1,933,299	2,216,899
Proceedings	389,908	690,375
Naval History	1,858	285
Sponsored Student Program	317,765	258,338
Subvention/Gordon England Chair	97,600	172,714
Conferences	-	60,001
USNI News/Technology	44,003	30,171
Oral History	10,250	78,944
JCTCC LT Maintenance	1,000	-
Naval Historical Foundation	579,601	-
Library/Photo/Archives	8,658	7,083
Total Subject to Expenditure for Specific Purpose	<u>3,501,937</u>	<u>3,905,594</u>
Subject to Passage of Time:		
For Periods after December 31:	<u>1,559,450</u>	<u>1,499,091</u>
Total Subject to Passage of Time	<u>1,559,450</u>	<u>1,499,091</u>
Subject to Endowment:		
General Program Support Endowment	385,111	464,622
Essay Contests Endowment	324,770	391,817
Oral History Endowment	95,612	115,352
Library/Photo Endowment	57,270	69,094
Total Subject to Endowment	<u>862,763</u>	<u>1,040,885</u>
 Total Net Assets with Donor Restrictions	 <u>\$ 5,924,150</u>	 <u>\$ 6,445,570</u>

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
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NOTE 12 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions consisted of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specific Purpose:		
Conference Center	\$ 334,328	\$ 11,515,388
Essay Contests	388,000	390,878
Proceedings	300,000	301,561
Naval History	41,295	42,767
Sponsored Student Program	70,291	55,113
Subvention/Gordon England Chair	83,114	10,913
Conferences	342,500	221,000
USNI News/Technology	25,000	42,292
Oral History	69,061	88,954
Naval Historical Foundation	112,399	-
Total Releases for a Specific Purpose	<u>1,765,988</u>	<u>12,668,866</u>
Subject to Passage of Time:		
Prior Year Pledges Released	<u>386,350</u>	<u>645,642</u>
Total Releases from Time Restrictions	<u>386,350</u>	<u>645,642</u>
Subject to Endowment:		
General Program Support Endowment	-	24,453
Essay Contests Endowment	-	20,622
Oral History Endowment	-	6,071
Library/Photo Endowment	-	3,634
Total Releases from Endowments	<u>-</u>	<u>54,780</u>
Total Net Assets Released From Restrictions	<u>\$ 2,152,338</u>	<u>\$ 13,369,288</u>

NOTE 13 ENDOWMENT

The Institute's endowment consists of individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 13 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The board of the Institute has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Institute classifies its funds to be held in perpetuity as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as in perpetuity is classified as net assets with donor restriction based on time or purpose until those amounts are appropriated for expenditure per the transfer spending policy approved by the Institute's Board of Trustees. In accordance with MUPMIFA, the Institute considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds.

- The duration and preservation of the fund
- The purpose of the Institute and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute

Return Objectives and Risk Parameters

The Institute has invested its endowment assets in a manner that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce approximately 5% greater than the rate of inflation as measured by the Consumer Price Index, and above the median of the Lipper Peer Universes. Actual returns in a given year may vary from this amount.

Spending Policies of the Endowments

The Institute has a spending policy of appropriating for distribution up to 5% of its total endowment balance over the calendar year. The earnings from the endowment shall be expended in a manner consistent with the terms under which the funds were provided or donated to the endowment.

In establishing this policy, the Institute considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Institute expects the current spending policy will allow its endowment to retain the original fair value of the gift.

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 ENDOWMENT (CONTINUED)

Spending Policies of the Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted:			
Subject to Spending Policy	\$ -	\$ (33,920)	\$ (33,920)
Funds Held in Perpetuity	-	896,683	896,683
Total	<u>\$ -</u>	<u>\$ 862,763</u>	<u>\$ 862,763</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted:			
Subject to Spending Policy	\$ -	\$ 144,202	\$ 144,202
Funds Held in Perpetuity	-	896,683	896,683
Total	<u>\$ -</u>	<u>\$ 1,040,885</u>	<u>\$ 1,040,885</u>

The following table represents the changes in endowment net assets at December 31:

	2022			
	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Organizations Spending Policy	To Be Held In Perpetuity	
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 144,202	\$ 896,683	\$ 1,040,885
Investment Return	-	(178,122)	-	(178,122)
Appropriations of Endowment Assets for Expenditure	-	-	-	-
Total	<u>\$ -</u>	<u>\$ (33,920)</u>	<u>\$ 896,683</u>	<u>\$ 862,763</u>
	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Organizations Spending Policy	To Be Held In Perpetuity	
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 89,693	\$ 896,683	\$ 986,376
Investment Return	-	109,289	-	109,289
Appropriations of Endowment Assets for Expenditure	-	(54,780)	-	(54,780)
Total	<u>\$ -</u>	<u>\$ 144,202</u>	<u>\$ 896,683</u>	<u>\$ 1,040,885</u>

**UNITED STATES NAVAL INSTITUTE AND AFFILIATE
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NOTE 14 PENSION PLAN

The Institute has responsibility for a legacy defined benefit pension plan (the Plan) that covers certain of its employees who worked at the Institute prior to 2003. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and compensation rates near retirement. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as benefits expected to be earned in the future. Plan assets consist of fixed-income funds.

The Institute's funding policy is to make contributions to the extent required by the Employee Retirement Income Security Act.

The Plan was amended to freeze benefits accrued as of June 1, 2003. No further benefits accrue to participants and no employee of the Institute who was not already a participant in the Plan as of June 1, 2003 became a participant after that date. The Institute intends to fully fund and terminate the Plan in 2023.

The following is a summary of the funded status of the Plan as of December 31, the key assumptions used by the Plan's actuary, and the cost to the Institute of providing retirement benefits.

Change in Benefit Obligations

	<u>2022</u>	<u>2021</u>
Benefit Obligation - Beginning of Year	\$ (3,535,978)	\$ (3,878,546)
Interest Cost	(111,283)	(106,339)
Actuarial (Loss) Gain	705,955	299,155
Actual Distributions	288,627	149,752
Settlement (Loss)	(30,106)	-
Benefit Obligation - End of Year	<u>\$ (2,682,785)</u>	<u>\$ (3,535,978)</u>

Change in Plan Assets

	<u>2022</u>	<u>2021</u>
Plan Assets at Fair Value - Beginning of Year	\$ 2,786,415	\$ 2,946,772
Actual Return on Plan Assets	(343,641)	(50,605)
Actual Employer Contributions	10,000	40,000
Settlement - Amount Paid	(148,259)	-
Actual Distributions	(140,368)	(149,752)
Plan Assets at Fair Value - End of Year	<u>\$ 2,164,147</u>	<u>\$ 2,786,415</u>
Unfunded Pension Obligation	<u>\$ (518,638)</u>	<u>\$ (749,563)</u>

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NOTE 14 PENSION PLAN (CONTINUED)

Change in Plan Assets (Continued)

Components of net periodic pension benefit cost and changes in the Plan's net assets:

	2022	2021
Interest Cost	\$ (111,283)	\$ (106,339)
Expected Return on Plan Assets	101,127	143,598
Amortization of Net Loss	(182,754)	(215,573)
Other Changes in Net Assets	413,835	320,525
Net Periodic Pension Cost and Changes in Plan Assets	\$ 220,925	\$ 142,211

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate used in determining its year-end pension accounting is reasonable based on current available information provided by an independent actuarial firm. The expected rate of return on plan assets is determined by the plan assets' historical long-term returns by asset class. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

Weighted average assumptions used to determine the benefit obligation and net periodic benefit cost are as follows for the years ended December 31:

	2022	2021
Benefit Obligation:		
Discount Rate	5.45%	3.26%
Expected Return on Plan Assets	3.75%	5.00%
Net Periodic Benefit Cost:		
Discount Rate	3.26%	2.95%
Expected Return on Plan Assets	3.75%	5.00%

Contributions

The Institute expects to make at least the minimum contribution of \$0 to the pension plan in fiscal year 2023.

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NOTE 14 PENSION PLAN (CONTINUED)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the years ended December 31:

<u>Year Ended December 31,</u>	<u>Amount</u>
2023	\$ 177,134
2024	182,332
2025	185,568
2026	191,990
2027	201,678
Thereafter	1,053,971
Total	<u><u>\$ 1,992,673</u></u>

Plan Assets

The Plan's weighted average asset allocations by asset category are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Mutual Funds	99.0 %	99.0 %
Accrued Income	-	-
Cash and Equivalents	1.0	1.0
Total	<u>100.0 %</u>	<u>100.0 %</u>

The fair values of the Institute's pension plan assets at December 31, 2022, by asset category, are as follows:

Mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Plan's interests in such investments are categorized as mutual funds. Such securities are classified within Level 1 of the valuation hierarchy.

The following tables sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of:

<u>December 31, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 2,152,830	\$ -	\$ -	\$ 2,152,830
Cash and Cash Equivalents	11,317	-	-	11,317
Total Assets at Fair Value	<u>\$ 2,164,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,164,147</u>
<u>December 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 2,771,580	\$ -	\$ -	\$ 2,771,580
Cash and Cash Equivalents	14,835	-	-	14,835
Total Assets at Fair Value	<u>\$ 2,786,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,786,415</u>

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NOTE 14 PENSION PLAN (CONTINUED)

Defined Contribution Plan

Upon freezing the above mentioned defined benefit plan in 2003, the Institute initiated a defined contribution 403(b) plan available to employees in which it matches 50% of participating employees' contributions up to 8% of eligible compensation. During 2022 and 2021, the Institute's share of contributions to this Plan was \$152,990 and \$128,117, respectively.

NOTE 15 PAYCHECK PROTECTION PROGRAM (PPP) FORGIVENESS

On April 3, 2020 the Institute received a loan from First Citizens Bank in the amount of \$1,105,100 to fund payroll through the Paycheck Protection Program (the PPP Loan). The PPP Loan was forgiven in full on December 9, 2020 and the forgiveness was recorded as nonoperating income in the Consolidated Statement of Activities for the year ended December 31, 2020.

On January 20, 2021 the Institute received a second loan from First Citizens Bank in the amount of \$1,105,100 to fund payroll through the Paycheck Protection Program (the PPP Loan). The PPP Loan was forgiven in full on July 7, 2021 and the forgiveness was recorded as nonoperating income in the Consolidated Statement of Activities for the year ended December 31, 2021.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Institute's financial position.

NOTE 16 LEASES

The Institute leases equipment under a long-term, non-cancelable lease agreement, expiring in 2024.

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022, is as follows:

<u>Year</u>	
2023	\$ 36,948
2024	<u>24,632</u>
Undiscounted cash flows	61,580
Less Imputed Interest	<u>(4,451)</u>
Total present value	<u><u>\$ 57,129</u></u>

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NOTE 17 CONCENTRATIONS

The institute received a significant amount of its contributions from a concentrated number of donors in both 2022 and 2021. For the year ended December 31, 2022, five donors' contributions comprised 57% of total contribution revenue. For the year ended December 31, 2021, two donors' contributions comprised 60% of total contribution revenue.

NOTE 18 LIQUIDITY

The Institute has \$15,899,946 and \$21,197,255 of financial assets on the Consolidated Statement of Financial Position as of December 31, 2022 and 2021, respectively. A portion of these financial assets are subject to time or purpose restrictions and are not available for general expenditure within one year for the years ended December 31, 2022 and 2021. The Institute attempts to maintain sufficient cash on hand to meet 30 days of normal operating expenses and will draw upon investment funds without donor restrictions in the event of an unanticipated liquidity need. Financial assets as of December 31 consisted of:

	2022	2021
Cash	\$ 3,424,864	\$ 5,462,508
Investments	5,015,603	5,642,555
Accounts Receivable	1,450,378	1,581,154
Contributions Receivable	6,009,101	8,511,038
Financial Assets - End of Year	<u>15,899,946</u>	<u>21,197,255</u>
Less Those Unavailable for General Expenditures		
Within One Year Due to:		
Restricted by Donor - Time	(1,559,450)	(1,499,091)
Restricted by Donor - Purpose	(3,501,937)	(3,905,594)
Endowment	(896,683)	(896,683)
Subtotal	<u>(5,958,070)</u>	<u>(6,301,368)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 9,941,876</u>	<u>\$ 14,895,887</u>

NOTE 19 SUBSEQUENT EVENTS

Management also evaluated all other subsequent events through May 11, 2023, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2022, but prior to May 11, 2023, that provided additional evidence about conditions that existed at December 31, 2022, have been recognized in the consolidated financial statements for the year ended December 31, 2022.