

THE NATIONAL CRYPTOLOGIC MUSEUM  
FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2019

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

TABLE OF CONTENTS

Independent Auditor's Report	3
Financial Statements	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 17



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The National Cryptologic Museum Foundation, Inc.  
Ft. George G. Meade, Maryland

We have audited the accompanying financial statements of The National Cryptologic Museum Foundation, Inc. (a nonprofit organization) 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.

### **Managements 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 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 from the financial statements.

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

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

(with comparative totals as of June 30, 2018)

	ASSETS	
	2019	2018
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,773,712	\$ 1,400,902
Investments	8,302,045	4,346,181
Current portion of contributions receivable	650,000	860,000
Accounts receivable	8,028	0
Prepaid expenses	4,649	2,377
	<u>10,738,434</u>	<u>6,609,460</u>
<b>PROPERTY AND EQUIPMENT</b>		
Construction in process	5,315,088	5,008,052
Office furniture and equipment	17,591	17,591
Computer equipment	15,330	15,330
	<u>5,348,009</u>	<u>5,040,973</u>
Less accumulated depreciation	32,598	31,437
	<u>5,315,411</u>	<u>5,009,536</u>
<b>OTHER ASSETS</b>		
Contributions receivable, net of current portion	771,339	414,360
Security deposit	5,123	5,123
	<u>776,462</u>	<u>419,483</u>
	<u>16,830,307</u>	<u>12,038,479</u>
	<u>\$ 16,830,307</u>	<u>\$ 12,038,479</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 102,530	\$ 70,980
	<u>102,530</u>	<u>70,980</u>
<b>COMMITMENTS</b>		
<b>NET ASSETS</b>		
Without donor restrictions	5,825,109	5,394,466
With donor restrictions	10,902,668	6,573,033
	<u>16,727,777</u>	<u>11,967,499</u>
	<u>\$ 16,830,307</u>	<u>\$ 12,038,479</u>

See accompanying notes to financial statements and independent auditor's report.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Cryptologic Museum Foundation, Inc. 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.

## **Report on Summarized Comparative Information / Change in Accounting Principle**

We have previously audited The National Cryptologic Museum Foundation, Inc.'s 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink, appearing to be 'R. d. [unclear] [unclear]', written in a cursive style.

November 8, 2019

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

(with comparative totals for the year ended June 30, 2018)

	Without Donor Restrictions	2019 With Donor Restrictions	Total	2018  Comparative Totals Only
<b>REVENUE AND SUPPORT</b>				
Contributions and membership dues	\$ 1,312,048	\$ 4,067,386	\$ 5,379,434	\$ 2,334,717
Special events and activities	9,396	0	9,396	51,274
In-kind donations	51,000	0	51,000	14,420
Investment income and realized gains	1,576	148,400	149,976	86,592
Net change in unrealized gains on investments	0	113,849	113,849	13,041
Total revenue and support	1,374,020	4,329,635	5,703,655	2,500,044
<b>EXPENSES</b>				
Program	355,877	0	355,877	167,241
Administrative and general	86,587	0	86,587	52,074
Fund raising	500,913	0	500,913	444,888
Total expenses	943,377	0	943,377	664,203
Increase in net assets	430,643	4,329,635	4,760,278	1,835,841
Net assets, beginning of year	5,394,466	6,573,033	11,967,499	10,131,658
Net assets, end of year	\$ 5,825,109	\$ 10,902,668	\$ 16,727,777	\$ 11,967,499

See accompanying notes to financial statements and independent auditor's report.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

(with comparative totals for the year ended June 30, 2018)

	2019			Total	2018 Comparative Totals Only
	Program	Administrative & General	Fund Raising		
Professional fundraising and lobbying	\$ 0	\$ 0	\$ 342,315	\$ 342,315	\$ 302,433
Artifacts, exhibits, and education	219,451	0	0	219,451	25,587
Salaries	41,800	8,360	61,388	111,548	117,533
Rent and occupancy	7,500	2,500	57,614	67,614	38,389
Legal and accounting	0	60,020	0	60,020	24,790
Advertising	32,157	0	14,256	46,413	46,198
Other special programs and sponsorships	21,967	0	0	21,967	40,773
Meetings and conferences	5,000	8,173	8,172	21,345	6,858
Payroll taxes and benefits	3,825	765	5,617	10,207	10,396
Printing and publication	3,163	0	6,868	10,031	2,660
Miscellaneous	7,807	0	449	8,256	9,574
Supplies	5,679	0	0	5,679	5,814
Communications	1,077	1,077	2,958	5,112	8,470
Bank charges	4,295	0	47	4,342	4,526
Insurance	0	4,085	0	4,085	4,389
Postage and delivery	995	994	1,229	3,218	4,232
Depreciation	1,161	0	0	1,161	1,507
Other taxes	0	311	0	311	300
Travel	0	302	0	302	9,774
	<u>\$ 355,877</u>	<u>\$ 86,587</u>	<u>\$ 500,913</u>	<u>\$ 943,377</u>	<u>\$ 664,203</u>

See accompanying notes to financial statements and independent auditor's report.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

STATEMENT OF CASH FLOWS

June 30, 2019

(with comparative totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 4,760,278	\$ 1,835,841
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,161	1,507
Non-cash contributions	(1,779,337)	(159,045)
Cash paid for security deposit	0	(5,123)
Net realized and unrealized (gains) losses on investments	(89,534)	3,974
Payments received on contributions receivable	1,035,000	1,103,350
Changes in operating assets and liabilities:		
Accounts receivable	(8,028)	6,701
Prepaid expenses	(2,272)	279
Accounts payable and accrued expenses	8,857	(587,323)
	<u>3,926,125</u>	<u>2,200,161</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for property and equipment	(284,343)	(1,982,050)
Investments purchased	(4,713,674)	(888,558)
Proceeds from sales of investments	1,444,702	729,285
	<u>(3,553,315)</u>	<u>(2,141,323)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	372,810	58,838
Cash and cash equivalents, beginning of year	<u>1,400,902</u>	<u>1,342,064</u>
Cash and cash equivalents, end of year	<u>\$ 1,773,712</u>	<u>\$ 1,400,902</u>

See accompanying notes to financial statements and independent auditor's report.



THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The National Cryptologic Museum Foundation, Inc. (a Maryland corporation) was formed on April 17, 1996 to support the National Cryptologic Museum (Museum), an instrumentality of the United States Department of Defense. The Foundation's support includes making purchases of artifacts that are donated to the Museum, publicizing the Museum and building a network of Museum supporters, and raising funds and facilitating the construction of a new Museum facility. Additionally, the Foundation supports a history symposium along with other special events, presents a variety of programs and hosts an annual golf tournament. The costs associated with these activities are program expenses on the accompanying statement of activities.

The Foundation works with the Museum to educate future generations and the public at large about the struggles and accomplishments of America's cryptologists and cryptanalysts. In addition to activities at the Museum tailored to students and visiting groups, the Foundation sponsors programs dealing with significant events in the history of cryptology, many of which were once classified. Because one of the chief goals of the Foundation is to introduce the importance of cryptology to the next generation of Americans, several awards based on student scholarship are sponsored.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Net assets, revenue and support, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Without Donor Restrictions:* net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are generally not considered "restricted" under GAAP, though for internal reporting, the Foundation tracks such grants and contributions to verify that the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Basis of Presentation (cont.)

*With Donor Restrictions:* net assets subject to donor-imposed stipulations that are more restrictive than the Organization's mission and purpose. 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. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, when the donor stipulated that resources be maintained in perpetuity.

Revenue Recognition

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a 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 statement of activities as net assets released from restrictions. Membership dues are recognized as income when received. Contributions of assets other than cash are recorded at their estimated fair value.

Unconditional promises to give are recognized as revenue when the promise is received. Conditional promises are not recognized until they become unconditional; that is, in the period in which the conditions on which they depend are substantially met. Contributions receivable in more than one year are discounted to their present value (estimated fair value) using a rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue. If the value of unconditional promises decreases after the contribution was initially recorded because of a change in the quantity or nature of assets to be received, the decline is recorded as a bad debt loss in the net asset category where the revenue was originally recognized. Management determines an allowance for unredeemed promises by considering such factors as prior collection history, type of contribution, and the type of fund-raising event. As of June 30, 2019, management has estimated that all contributions receivable are fully collectible.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Advertising

The Foundation expenses advertising costs as incurred. Advertising expense for the year ended June 30, 2019 was \$46,413.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Functional Expense Allocation

Expenses relating to more than one function are allocated to program, administrative and general, and fund raising costs based on employee time estimates or other appropriate usage factors.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid unrestricted investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments and property and equipment costing over \$500 are capitalized. Maintenance and repairs that do not improve or extend the life of respective assets are charged to expense when incurred. All property is depreciated over the estimated useful lives of the assets using the straight line method. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Property and Equipment (cont.)

Costs of constructing a new museum facility are being capitalized as incurred. When the facility is completed, the Foundation anticipates donating the facility to the Museum.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the date of the accountant's report, which is the date the financial statements were available to be issued.

**NOTE B – CONDITIONAL PROMISES**

The Foundation has received conditional promises to give for capital campaign purposes in the amount of \$1,310,000 as of June 30, 2019. Pursuant to the Foundation's policy and in conformity with FASB ASC Section 958, the Foundation does not recognize conditional promises as revenue until the condition is met.

**NOTE C – CONTRIBUTIONS RECEIVABLE**

The Foundation assists the National Cryptologic Museum in its efforts to commemorate the accomplishments and contributions of the cryptologic community. To enhance these efforts, the Foundation is currently in a fund raising capital campaign for the establishment of the Cyber Center for Education and Innovation (CCEI). Establishment of the CCEI includes construction of a new museum facility as well as the creation and implementation of education and innovation programs. Contributions receivable, which are unconditional promises to give, are summarized as follows:

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE C – CONTRIBUTIONS RECEIVABLE (cont.)**

	2019
Receivables to be collected in less than one year	\$ 650,000
Receivables to be collected in one to five years	600,000
Receivables to be collected in more than five years	<u>200,000</u>
Total	1,450,000
Less discount to net present value at 1.0%	(28,661)
Less estimated collection losses	<u>0</u>
Net contributions receivable	<u><u>\$ 1,421,339</u></u>

Contributions receivable are temporarily restricted for capital campaign purposes.

**NOTE D – INVESTMENTS**

Investments, carried at fair value based on quoted prices in active markets (all level 1 measurements) at June 30, 2019 consisted of the following:

	2019	
	<u>Cost</u>	<u>Fair Value</u>
Mutual funds – equity securities	\$ 899,791	\$1,018,321
Mutual funds – fixed income securities	6,848,689	6,964,022
Mutual funds – real estate	200,251	207,072
Mutual funds – commodities	<u>105,557</u>	<u>112,630</u>
	<u>\$8,054,288</u>	<u>\$8,302,045</u>

The net change in unrealized gains on investments for the years ended June 30, 2019 was \$113,849.

Investment income (loss) from these investments for the year ended June 30, 2019 is summarized as follows:

	2019
Interest and dividends	\$ 219,997
Realized losses on sale	(24,315)
Management fees	<u>(45,706)</u>
	<u><u>\$ 149,976</u></u>

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE E – NET ASSETS WITH DONOR RESTRICTIONS**

As of June 30, 2019, all net assets with donor restrictions are temporarily restricted and are available for the establishment of the Cyber Center for Education and Innovation (CCEI). Establishment of the CCEI includes construction of a new museum facility as well as the creation and implementation of education and innovation programs. Therefore, funds may be used for construction costs as well as various general and administrative expenses and fund raising expenses. Temporarily restricted net assets consisted of the following:

	2019
Cash and cash equivalents	\$ 1,265,887
Contributions receivable	1,421,339
Investments	8,302,045
Accounts payable and accrued expenses	<u>(86,603)</u>
Temporarily restricted net assets	<u>\$ 10,902,668</u>

**NOTE F – INCOME TAXES**

The Foundation is a nonprofit organization under section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from Federal and state income taxes. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purposes.

The Foundation's income tax filings are subject to audit by various taxing authorities. The Foundation's open audit periods are for fiscal years ending June 30, 2016 through June 30, 2019. The Foundation recognizes interest and penalties related to income taxes as administrative and general expenses and has not incurred any of these expenses the year ended June 30, 2019.

**NOTE G – CONCENTRATIONS**

In general, the Federal Deposit Insurance Corporation (FDIC) insures bank balances up to \$250,000. Throughout the year, the Foundation's bank balance may exceed these insured limits. As of June 30, 2019, amounts on deposit in excess of insured limits was \$1,469,378.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE H – COMMITMENTS**

The Foundation has entered into a contract with a vendor to receive professional fund raising and building campaign advisory services. For the year ended June 30, 2019, \$96,000 has been incurred. A fixed term contract commenced in April 2012 and expired in April 2013, and has been extended several times, with the most recent contract extension expiring in April 2020. The current extension requires payments in the amount of \$8,000 per month.

The Foundation has entered a contract with a vendor to receive lobbying services for the purpose of obtaining capital funding support from the State of Maryland Capital Budget and to set the stage for continued funding in future year budgets as the capital building campaign moves forward. For the year ended June 30, 2019, \$35,000 has been incurred. A fixed term contract commenced in January 2013 and expired in December 2013, and has been extended several times, with the most recent extension expiring in December, 2019. The extension requires payments in the amount of \$2,917 per month.

The Foundation leases office space under the terms of an operating lease commencing January 2018. The lease expires December 2020 and calls for minimum monthly base rent payments ranging from \$3,934 to \$5,123 over the life the lease plus additional amounts for certain utilities. For the year ended June 30, 2019, \$55,194 has been incurred.

The Foundation has entered into a contract with a vendor for exhibit design related to the CCEI. A fixed term contract is in place and continues through August 2020, requiring payments totaling \$256,200 in future periods. For the year ended June 30, 2019, \$64,900 has been incurred.

Future minimum payments required under these contracts as of June 30, 2019 are as follows:

2020	\$ 404,330
2021	30,738

The Organization has also entered into various construction contracts to build a new museum facility. The outstanding commitments under these construction contracts as of June 30, 2019 is \$82,895.

**NOTE I – FUNDRAISING EXPENSES**

Revenue from fund raising activities has been reported net of related fund raising expenses in the amount of \$30,611 for the year ended June 30, 2019.

THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE J - DONATED SERVICES AND FACILITIES**

The Foundation recognizes contributions for the fair value of services received where the services required specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. The estimated amount of donated services rendered to the Foundation for the year ended June 30, 2019 was \$41,000, which is reported as in-kind donations and as an expense in the statement of activities.

Donated investments are recorded as contributions at their estimated fair values at the date of donation.

The Foundation received the use of facilities for the years ended June 30, 2019 valued at \$10,000. These amounts have been recorded in the financial statements as in-kind donations and as an expense in the statement of activities.

Significant amounts of time and services are donated to the Foundation by the Board of Directors, individuals, and various other parties. Those volunteers provided various services throughout the year which are not recognized as contributions in the accompanying financial statements because they do not meet the requirements for recognition under accounting principles generally accepted in the United States of America.

**NOTE K - GRANTS**

The Organization has been awarded a total of \$4,750,000 in various State of Maryland Capital Grants for the construction of a new museum facility. The awards are subject to certain conditions, including a 1:1 matching requirement. Management anticipates that sufficient funds will be raised to satisfy the full 1:1 match condition. These awards, which represent a commitment by the State of Maryland to provide funds on a cost-reimbursement basis will not be reflected in the financial statements until reimbursable activities have been conducted in accordance with the provisions of the grants.

For the year ended June 30, 2019, \$1,771,635 was received.



THE NATIONAL CRYPTOLOGIC MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

**NOTE L – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

As of June 30, 2019, the Foundation has \$515,853 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash and cash equivalents. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

**NOTE M – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

	<u>2019</u>
Cash paid for income taxes	\$ 0
Cash paid for interest	0
Non-cash acquisition of property and equipment	0

**NOTE N – PRIOR YEAR SUMMARIZED COMPARATIVE INFORMATION**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018 from which the summarized information was derived.