

# **Navy SEAL Foundation, Inc. And Subsidiary**

Consolidated Financial Report  
December 31, 2013

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## Independent Auditor's Report

To the Board of Directors  
Navy SEAL Foundation, Inc.  
Virginia Beach, VA

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Navy SEAL Foundation, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Navy SEAL Foundation, Inc. and Subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Richmond, Virginia  
July 23, 2014

**Navy SEAL Foundation, Inc. and Subsidiary**

**Consolidated Statement of Financial Position  
December 31, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Cash	\$ 2,831,271	\$ 16,353,216
Contributions and pledges receivable, net	628,593	764,818
Investments, at fair value	31,261,916	11,529,873
Other investments, at cost	611,028	611,028
Building, net of accumulated depreciation of 2013, \$377,599 and 2012, \$262,883	4,211,026	4,325,742
Other assets	500	500
	<b>Total assets</b>	<b>Total assets</b>
	<b>\$ 39,544,334</b>	<b>\$ 33,585,177</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 301,041	\$ 121,313
Deposits held for others	11,119	10,474
	<b>Total liabilities</b>	<b>Total liabilities</b>
	<b>312,160</b>	<b>131,787</b>
Net Assets		
Unrestricted:		
Board-designated for command assistance programs	7,590,000	7,590,000
Board-designated for educational programs	5,465,000	5,465,000
Board-designated for gold star programs	2,325,000	2,325,000
Board-designated for endowment	3,400,999	3,112,778
Undesignated	16,616,434	11,094,838
	<b>35,397,433</b>	<b>29,587,616</b>
Temporarily restricted	1,767,077	1,676,581
Permanently restricted	2,067,664	2,189,193
	<b>Total net assets</b>	<b>Total net assets</b>
	<b>39,232,174</b>	<b>33,453,390</b>
	<b>Total liabilities and net assets</b>	<b>Total liabilities and net assets</b>
	<b>\$ 39,544,334</b>	<b>\$ 33,585,177</b>

See Notes to Consolidated Financial Statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and public support:				
Contributions	\$ 12,232,519	\$ 431,586	\$ 20,214	\$ 12,684,319
Investment income, net	578,300	80,312	-	658,612
Net realized and unrealized gain on investments	1,001,727	193,038	-	1,194,765
Net assets released from restrictions	756,183	(756,183)	-	-
<b>Total support and revenue</b>	<b>14,568,729</b>	<b>(51,247)</b>	<b>20,214</b>	<b>14,537,696</b>
Expenses:				
Program services:				
Health and welfare	3,899,800	-	-	3,899,800
Education and motivation	1,411,782	-	-	1,411,782
History and heritage	105,002	-	-	105,002
<b>Total program services</b>	<b>5,416,584</b>	<b>-</b>	<b>-</b>	<b>5,416,584</b>
Supporting services:				
General administration	554,520	-	-	554,520
Fundraising	2,787,808	-	-	2,787,808
<b>Total supporting services</b>	<b>3,342,328</b>	<b>-</b>	<b>-</b>	<b>3,342,328</b>
<b>Total expenses</b>	<b>8,758,912</b>	<b>-</b>	<b>-</b>	<b>8,758,912</b>
<b>Change in net assets before transfers</b>	<b>5,809,817</b>	<b>(51,247)</b>	<b>20,214</b>	<b>5,778,784</b>
Transfers	-	141,743	(141,743)	-
<b>Change in net assets</b>	<b>5,809,817</b>	<b>90,496</b>	<b>(121,529)</b>	<b>5,778,784</b>
Net assets:				
Beginning	29,587,616	1,676,581	2,189,193	33,453,390
Ending	\$ 35,397,433	\$ 1,767,077	\$ 2,067,664	\$ 39,232,174

See Notes To Consolidated Financial Statements.

**Navy SEAL Foundation, Inc. and Subsidiary**

**Consolidated Statement of Activities  
Year Ended December 31, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and public support:</b>				
Contributions	\$ 10,269,032	\$ 1,344,004	\$ 46,323	\$ 11,659,359
Investment income, net	214,124	19,034	52,123	285,281
Net realized and unrealized gain on investments	277,899	49,951	9,172	337,022
Net assets released from restrictions	2,430,303	(2,430,303)	-	-
<b>Total support and revenue</b>	<b>13,191,358</b>	<b>(1,017,314)</b>	<b>107,618</b>	<b>12,281,662</b>
<b>Expenses:</b>				
Program services:				
Health and welfare	3,312,545	-	-	3,312,545
Education and motivation	940,495	-	-	940,495
History and heritage	41,683	-	-	41,683
<b>Total program services</b>	<b>4,294,723</b>	<b>-</b>	<b>-</b>	<b>4,294,723</b>
Supporting services:				
General administration	464,461	-	-	464,461
Fundraising	1,442,563	-	-	1,442,563
<b>Total supporting services</b>	<b>1,907,024</b>	<b>-</b>	<b>-</b>	<b>1,907,024</b>
<b>Total expenses</b>	<b>6,201,747</b>	<b>-</b>	<b>-</b>	<b>6,201,747</b>
<b>Change in net assets</b>	<b>6,989,611</b>	<b>(1,017,314)</b>	<b>107,618</b>	<b>6,079,915</b>
Net assets:				
Beginning	22,598,005	2,693,895	2,081,575	27,373,475
Ending	\$ 29,587,616	\$ 1,676,581	\$ 2,189,193	\$ 33,453,390

See Notes To Consolidated Financial Statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Functional Expenses  
Year Ended December 31, 2013

	Program Services				Supporting Services			Total
	Health & Welfare	Education & Motivation	History & Heritage	Total	General Administration	Fundraising	Total	
Catering, venue, and entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,042,920	\$ 2,042,920	\$ 2,042,920
Command support	1,424,265	-	2,700	1,426,965	-	-	-	1,426,965
Wounded, death, and resiliency support	422,477	-	-	422,477	-	-	-	422,477
Survivor support	500,872	-	-	500,872	-	-	-	500,872
Children support	880,285	-	-	880,285	-	-	-	880,285
Salaries and wages	296,433	108,039	7,712	412,184	140,591	273,049	413,640	825,824
Scholarships	-	803,456	-	803,456	-	-	-	803,456
Advertising	84,184	30,682	2,190	117,056	52,513	333,123	385,636	502,692
Building expenses	77,825	27,102	2,085	107,012	107,027	-	107,027	214,039
Travel expenses	43,742	6,538	467	50,747	11,191	41,679	52,870	103,617
Tuition assistance and test preparation	-	292,348	-	292,348	-	-	-	292,348
Sailor of the year	-	81,900	-	81,900	-	-	-	81,900
Professional fees	35,641	12,990	927	49,558	22,232	26,097	48,329	97,887
Postage	5,315	1,935	138	7,388	3,313	6,498	9,811	17,199
History and heritage	-	-	85,362	85,362	-	-	-	85,362
Dues and subscriptions	31,437	11,458	818	43,713	19,610	23,019	42,629	86,342
Supplies	14,035	5,115	365	19,515	8,755	10,277	19,032	38,547
Miscellaneous	-	-	-	-	104,638	-	104,638	104,638
Telephone and communications	2,928	1,067	76	4,071	1,827	2,144	3,971	8,042
Bank service charges	21,566	7,860	561	29,987	13,453	15,791	29,244	59,231
Insurance	18,042	6,576	469	25,087	11,255	13,211	24,466	49,553
	3,859,047	1,397,066	103,870	5,359,983	496,405	2,787,808	3,284,213	8,644,196
Depreciation	40,753	14,716	1,132	56,601	58,115	-	58,115	114,716
	\$ 3,899,800	\$ 1,411,782	\$ 105,002	\$ 5,416,584	\$ 554,520	\$ 2,787,808	\$ 3,342,328	\$ 8,758,912

See Notes to Consolidated Financial Statements.



**Navy SEAL Foundation, Inc. and Subsidiary**

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2012**

	Program Services				Supporting Services			
	Health & Welfare	Education & Motivation	History & Heritage	Total	General Administration	Fundraising	Total	Total
Catering, Venue, and Entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 969,134	\$ 969,134	\$ 969,134
Command Support	1,406,482	-	-	1,406,482	-	-	-	1,406,482
Wounded, Death, and Resiliency support	568,367	-	-	568,367	-	-	-	568,367
Survivor Support	412,985	-	-	412,985	-	-	-	412,985
Children Support	409,952	-	-	409,952	-	-	-	409,952
Salaries and Wages	256,149	72,975	3,158	332,282	136,245	162,170	298,415	630,697
Scholarships	-	544,807	-	544,807	-	-	-	544,807
Advertising	66,002	18,855	832	85,689	83,836	211,547	295,383	381,072
Building Expenses	71,039	16,872	888	88,799	91,174	-	91,174	179,973
Travel Expenses	-	-	-	-	57,523	65,559	123,082	123,082
Tuition Assistance and Test Preparation	-	183,939	-	183,939	-	-	-	183,939
Sailor of the Year	-	70,500	-	70,500	-	-	-	70,500
Professional Fees	38,313	10,945	483	49,741	18,867	17,152	36,019	85,760
Postage	9,693	2,769	122	12,584	4,773	4,339	9,112	21,696
History and Heritage	-	-	35,277	35,277	-	-	-	35,277
Dues and Subscriptions	9,316	2,661	117	12,094	4,588	4,171	8,759	20,853
Supplies	11,480	3,279	145	14,904	5,653	5,139	10,792	25,696
Miscellaneous	51	15	1	67	25	23	48	115
Meeting and Expense	4,779	1,365	60	6,204	2,354	2,140	4,494	10,698
Telephone and Communications	2,656	759	34	3,449	1,308	1,189	2,497	5,946
	3,267,264	929,741	41,117	4,238,122	406,346	1,442,563	1,848,909	6,087,031
Depreciation	45,281	10,754	566	56,601	58,115	-	58,115	114,716
	\$ 3,312,545	\$ 940,495	\$ 41,683	\$ 4,294,723	\$ 464,461	\$ 1,442,563	\$ 1,907,024	\$ 6,201,747

See Notes to Consolidated Financial Statements.

**Navy SEAL Foundation, Inc. and Subsidiary**

**Consolidated Statement of Cash Flows  
Years Ended December 31, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 5,778,784	\$ 6,079,915
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,716	114,716
Allowance for doubtful collections	(7,082)	-
Discount on contributions and pledges receivable	(5,319)	(2,254)
Net realized and unrealized gain on investments	(1,194,765)	(337,022)
Contributions restricted for investment in endowment	(20,214)	(46,323)
Interest and dividends restricted for long-term investment	(143,747)	(121,243)
Investments donated	(578,740)	(1,058,647)
Proceeds from sale of donated investments	571,861	453,232
Change in assets and liabilities:		
Contributions and pledges receivable	148,626	516,118
Accounts payable	179,728	(67,410)
Deposits held for others	645	(111,179)
<b>Net cash provided by operating activities</b>	<b>4,844,493</b>	<b>5,419,903</b>
Cash Flow from Investing Activities		
Proceeds from sale of investments	9,427,294	7,814,313
Purchases of investments	(27,957,693)	(11,462,762)
<b>Net cash used in investing activities</b>	<b>(18,530,399)</b>	<b>(3,648,449)</b>
Cash Flow from Financing Activities		
Contributions restricted for investment in endowment	20,214	46,323
Interest and dividends restricted for reinvestment	143,747	121,243
<b>Net cash provided by financing activities</b>	<b>163,961</b>	<b>167,566</b>
<b>Net (decrease) increase in cash</b>	<b>(13,521,945)</b>	<b>1,939,020</b>
Cash:		
Beginning	16,353,216	14,414,196
Ending	<b>\$ 2,831,271</b>	<b>\$ 16,353,216</b>

See Notes to Consolidated Financial Statements.

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

Nature of business: The Navy SEAL Foundation, Inc. (the Foundation) is a non-profit organization established to provide support to all U.S. Navy SEALs, Special Warfare Combatant-craft Crewman, Naval Special Warfare (NSW) support personnel, and their spouses and children. The Foundation coordinates closely with NSW commands to support critical needs of active duty operators while also providing resources for NSW veterans. The Foundation is focused in three key areas: health and welfare programs, educational and motivational programs, and perpetuating the history and heritage of the Navy SEALs.

The Foundation is the sole member of SEAL Heritage Center, LLC (SHC), which was formed on June 3, 2011. The SHC's main function is to provide a facility dedicated to the Foundation's three key areas of focus.

Nature of activities: These consolidated financial statements present the financial position, activities and cash flows of the Foundation and its consolidated subsidiary, SHC.

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its consolidated subsidiary, SHC. All significant intercompany accounts and transactions have been eliminated.

The significant accounting policies followed by the Foundation are described below:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Financial statement presentation: The financial statement presentation follows the requirements of Accounting Standards Codification (ASC) 958. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

*Unrestricted net assets:* Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

*Temporarily restricted net assets:* Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or for specified purposes.

*Permanently restricted net assets:* Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor otherwise are removed by the Foundation's actions.

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

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Contributions and pledges receivable: Contributions that are expected to be collected within one year are recorded at their net realizable value. Contributions that are expected to be collected in future years are recorded as pledges receivable at the present value of estimated future cash flows after an allowance for estimated uncollectible contributions is provided. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Management determines the allowance by regularly evaluating individual donor receivables and considering a donor's payment history and current economic conditions. Contributions and pledges receivable are written off when deemed uncollectible.

Investments, at fair value: Security transactions are recorded on a trade-date basis and are carried at fair value. The net realized and unrealized gains and losses are reflected in the accompanying consolidated statement of activities. In calculating realized gains and losses, the cost of securities sold is determined by the specific-identification method. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

The Foundation invests in a professionally managed portfolio that contains money market funds, exchange traded funds, mutual funds and alternative investments. Such investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Other investments, at cost: In 2012, the Foundation received 3,300 shares of common stock in a private corporation with holding restrictions. Other investments are stated at historical cost based on the fair value at the date of the donation. Periodic evaluations are made by management, as deemed necessary based upon an event or change in circumstances that has occurred during the period, to determine whether investments have been impaired.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the value of the investments purchased.

Concentrations of credit risk: The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Building: The building is carried at cost. Depreciation is computed using the straight-line method based on the estimated useful life of 40 years.

Valuation of long-lived assets: Long-lived assets, such as the building, are reviewed for impairment whenever events or changes in circumstances indicate that 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 net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the accompanying consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell.

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Contributions revenue: Contributions revenue is reported net of fees related to on-line donations. Fees typically relate from banking or credit card service charges in relation to using a credit card to donate via the Foundation's website. The Foundation reports gifts of cash and stock as temporarily or permanently restricted support if they are received with donor stipulations that limit the use or timing of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the consolidated statements of activities. Conditional promises to give are not included as support until such time as the conditions are substantially met. It is the Foundation's policy that donor-restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted support in the consolidated statement of activities.

Functional expenses: Functional expenses are determined through allocating total expenses incurred to the programs and supporting services benefited.

Income taxes: The Foundation has a tax determination letter from the Internal Revenue Service that states it qualifies under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

Management evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the consolidated financial statements.

The Foundation files an informational Form 990 in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

Advertising: Advertising costs are expensed as incurred and totaled \$502,692 and \$381,072 for the years ended December 31, 2013 and 2012, respectively.

Subsequent events: The Foundation evaluated subsequent events for potential recognition and/or disclosure through July 23, 2014, the date the consolidated financial statements were available to be issued. The Foundation has determined that there are no such events to report.

Recently adopted accounting pronouncements: In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The amendments in this ASU require a not-for-profit entity (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The amendments in the ASU are effective prospectively for fiscal years, and interim fiscal periods within those years, beginning after June 15, 2013. The Foundation elected to early adopt the ASU for the year ended December 31, 2012.

#### Note 2. Contributions and Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges expected to be received in periods greater than one year are recorded at the discounted present value of the future cash flows.

**Navy SEAL Foundation, Inc. and Subsidiary**

**Notes to Consolidated Financial Statements**

**Note 2. Contributions and Pledges Receivable (Continued)**

Anticipated collections of contributions and pledges receivable at December 31 are as follows:

	<b>2013</b>	2012
Within one year	\$ 445,382	\$ 379,008
One to five years	<b>215,000</b>	430,000
	<b>660,382</b>	809,008
Less:		
Discount for time-value of money at 1 – 2%	<b>18,025</b>	23,344
Allowance for doubtful collections	<b>13,764</b>	20,846
	<b>\$ 628,593</b>	<b>\$ 764,818</b>

**Note 3. Investments**

The cost and the fair value of investments held at fair value at December 31 are as follows:

Investment type	<b>2013</b>		2012	
	<b>Cost</b>	<b>Fair Value</b>	Cost	Fair Value
Money market funds	\$ 321,013	\$ 321,013	\$ 231,619	\$ 231,619
Exchange traded funds	7,126,139	7,708,754	3,558,834	3,644,617
Mutual funds	19,867,755	20,538,953	7,305,036	7,390,019
Alternative investment funds	2,480,000	2,693,196	295,929	263,618
	<b>\$ 29,794,907</b>	<b>\$ 31,261,916</b>	\$ 11,391,418	\$ 11,529,873

Investment income is recorded net of investment advisory and custodial fees. These investment advisory and custodial fees totaled \$71,133 and \$35,672 for the years ended December 31, 2013 and 2012, respectively.

Alternative investments are less liquid than the Foundation's other investments. The following table summarizes these investments by strategy type at December 31:

Alternative Investment Strategy	<b>2013</b>		2012	
	<b>Number of Funds</b>	<b>Fair Value</b>	Number of Funds	Fair Value
Fund of funds:				
Multi-strategy	1	\$ 1,142,871	1	\$ 263,618
Hedge	1	1,550,325	-	-
Total fund of funds	<b>2</b>	<b>\$ 2,693,196</b>	1	\$ 263,618

Alternative investments include an off-shore investment fund and limited liability corporations. Included in investments are certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold but not yet purchased, intended to hedge against changes in the market value of investments. The financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in market value (market risk).

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 4. Fair Value Measurements

Guidance provided by the FASB defines fair value as 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. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required by the guidance provided by the FASB, the Foundation does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.
- Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and the fair value are determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives, and certain general and limited partnership and membership interests in funds that calculate net asset value per share, or its equivalent. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- Level 3 Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and certain general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, funds of hedge funds, and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

A description of the valuation techniques applied to the Foundation's major classes of assets measured at fair value on a recurring basis follows.

*Money market funds, exchange traded funds and mutual funds* – Money market funds, exchange traded funds and mutual funds that are traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### Note 4. Fair Value Measurements (Continued)

*Alternative fund investments* – Depending on the redemption options available, as a practical expedient it may be possible that for alternative investments, the reported net asset value (NAV) represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a Level 2 input. However, certain funds may provide the manager with the ability to suspend or postpone redemption (a “gate”), or a “lock-in period” upon initial subscription, within which the Foundation may not redeem without incurring a penalty. In the case of the imposition of a gate, if a “lock-in period” of in excess of three months is remaining at the statement of financial position date, or if the Foundation may not redeem its holding in the fund within three months or less, the Foundation’s ability to validate or verify the NAV and fair value through redeeming is impaired, and the investment is generally classified as Level 3.

In determining fair value, the Foundation utilizes the net asset value provided by the underlying fund investment managers. The underlying fund investments value securities and other financial instruments at fair value. The estimated fair values of certain investments of the underlying fund investments, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective fund investment and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The following tables represent the Foundation’s fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31:

Description	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013				
Money market funds (a)	\$ 321,013	\$ 321,013	\$ -	\$ -
Exchange traded funds				
Domestic equity	3,512,427	3,512,427	-	-
Global equity	2,009,198	2,009,198	-	-
Fixed Income	2,187,129	2,187,129	-	-
Mutual funds				
Domestic equity	1,249,180	1,249,180	-	-
Global equity	4,328,359	4,328,359	-	-
Real assets	2,710,947	2,710,947	-	-
Fixed Income	9,508,209	9,508,209	-	-
Other investments	2,742,258	2,742,258	-	-
Alternative investment funds				
Multi-strategy	1,142,871	-	1,142,871	-
Hedge	1,550,325	-	-	1,550,325
	<b>\$ 31,261,916</b>	<b>\$ 28,568,720</b>	<b>\$ 1,142,871</b>	<b>\$ 1,550,325</b>



**Navy SEAL Foundation, Inc. and Subsidiary**

**Notes to Consolidated Financial Statements**

**Note 4. Fair Value Measurements (Continued)**

Description	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2012				
Money market funds (a)	\$ 231,619	\$ 231,619	\$ -	\$ -
Exchange traded funds				
Domestic equity	1,556,307	1,556,307	-	-
Global equity	601,600	601,600	-	-
Real assets	543,092	543,092	-	-
Fixed Income	943,618	943,618	-	-
Mutual funds				
Global equity	1,549,413	1,549,413	-	-
Real assets	242,764	242,764	-	-
Fixed Income	4,460,381	4,460,381	-	-
Other investments	1,137,461	1,137,461	-	-
Alternative investment fund				
Multi-strategy	263,618	-	263,618	-
	<u>\$ 11,529,873</u>	<u>\$ 11,266,255</u>	<u>\$ 263,618</u>	<u>\$ -</u>

(a) Based on its analysis of the nature and risks of these investments, the reporting entity has determined that presenting them as a single class is appropriate.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which the Foundation has used at least one significant unobservable input in the valuation model. The following table presented a reconciliation of activity for the Level 3 financial instruments:

	Hedge
Balance, January 1, 2013	\$ -
Purchases of investments	1,480,000
Net change in unrealized appreciation on investments	70,325
Balance, December 31, 2013	<u>\$ 1,550,325</u>

The total change in unrealized appreciation included in the consolidated statement of activities attributable to Level 3 investment still held at December 31, 2013 is \$70,325.

There were no transfers among Levels 1, 2, and 3 for the years ended December 31, 2013 and 2012.

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### Note 4. Fair Value Measurements (Continued)

The following tables provide additional information that describes the nature and risk of the alternative investments, whose fair value is based on net assets value, by major class:

2013			
Strategy Category	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Multi-strategy (a)	\$ 1,142,871	Quarterly	60 days
Hedge (b)	1,550,325	N/A	N/A
	<u>\$ 2,693,196</u>		

(a) This category includes an investment in a fund that invests substantially all of its net assets in a limited partnership (master fund), which in turn conducts substantially all investment and trading activities on behalf of the fund. The investment objective of the master fund is to achieve superior risk-adjusted returns by deploying capital in investments with a favorable risk/reward scenario across select asset classes, sectors, and geographies. Investments will consist of multiple strategies, in both developed and emerging markets. Investments will be made in all sectors, including equity, credit, commodity, currency, option, and other instruments. The fair value of the investment has been provided by the fund's investment manager. The fund is located in the Cayman Islands.

(b) This category includes an investment in a fund whose objective is to seek capital appreciation through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow investment managers to use leveraged or short-sale positions to take advantage of perceived inefficiencies across the global capital markets. Redemption requests are dependent on approval of the fund. As such, due to limitations on redemption frequency, the investment is recorded as Level 3. The fair value of the investment has been provided by the fund's investment manager. The fund is a limited liability company incorporated in Delaware.

2012

Strategy Category	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Multi-strategy (a)	<u>\$ 263,618</u>	Daily	Daily

(a) This category includes an investment in a fund that invests in excess of 77% of its assets into 26 trading funds; each trading fund being a separate and distinct fund. Through the fund's shareholdings in the trading funds, the fund operates as a multi-manager fund. The fair value of the investment has been provided by the fund's investment manager. The fund is an alternative investment fund located in Bermuda with variable capital and limited liability.

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 5. Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes and periods:

	<u>2013</u>	<u>2012</u>
Funding of health and welfare programs	\$ 778,498	\$ 1,039,002
Funding of operations	626,005	633,957
Funding of education and motivation programs	-	3,622
Funding of endowment	362,574	-
	<u>\$ 1,767,077</u>	<u>\$ 1,676,581</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during the years ended December 31 as follows:

	<u>2013</u>	<u>2012</u>
Funding of health and welfare programs	\$ 403,444	\$ 2,068,430
Funding of education and motivation programs	352,139	361,873
Funding of other programs	600	-
	<u>\$ 756,183</u>	<u>\$ 2,430,303</u>

Permanently restricted net assets at December 31, 2013 and 2012, are restricted to investment in perpetuity, and the income earned is expendable to support all Foundation expenses. Permanently restricted net assets at December 31, 2013 and 2012, are related to endowment net assets.

#### Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Virginia enacted version of UPMIFA 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. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not appropriated for expenditure is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization

## Navy SEAL Foundation, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### Note 5. Restricted Net Assets (Continued)

##### Return Objective and Risk Parameters

The primary investment objectives are to preserve and protect assets by earning a total return for each category of assets, and long-term growth which reflects returns that exceed blended benchmarks established for the portfolio. A secondary objective is to experience market appreciation sufficient to enable maximum annual distributions to help fund the Foundation's ongoing operations and programs. The Foundation's philosophy regarding assets combines both the preservation of principal and moderate risk-taking. A moderate level of risk is warranted and encouraged to enable the opportunity to achieve satisfactory results consistent with the objectives and the fiduciary character of the funds over a full market cycle.

The Foundation adheres to the capital market theory which maintains that, over the very long term, the risk of owning equities should be rewarded with a somewhat greater return than available from fixed-income investments. Market timing is not an objective; however, sensitivity to market fluctuations is considered when making investment decisions.

The endowment activity for the years ended December 31, 2013 and 2012, is shown in the following tables:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	\$ -	\$ -	\$ 2,081,575	\$ 2,081,575
Investment return:				
Investment income, net	69,120	-	52,123	121,243
Realized and unrealized gains	43,658	-	9,172	52,830
Total investment return	112,778	-	61,295	174,073
Board transfer	3,000,000	-		3,000,000
Contributions	-	-	46,323	46,323
Endowment net assets, December 31, 2012	3,112,778	-	2,189,193	5,301,971
Investment return:				
Investment income, net	83,695	60,052	-	143,747
Realized and unrealized gains	204,526	160,779	-	365,305
Total investment return	288,221	220,831	-	509,052
Contributions	-	-	20,214	20,214
Transfers	-	141,743	(141,743)	-
Endowment net assets, December 31, 2013	<b>\$ 3,400,999</b>	<b>\$ 362,574</b>	<b>\$ 2,067,664</b>	<b>\$ 5,831,237</b>

Endowment permanently restricted net assets only consist of donor-restricted endowment funds. Endowment unrestricted net assets only consist of board-designated endowment funds.