

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2014

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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, 2014 and 2013, 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.

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, 2014 and 2013, 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.

McGladrey LLP

Richmond, Virginia
August 3, 2015

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

December 31, 2014 and 2013

	2014	2013
Assets		
Cash	\$ 4,217,604	\$ 2,831,271
Contributions and pledges receivable, net	1,152,972	628,593
Investments, at fair value	34,430,965	31,261,916
Other investments, at cost	611,028	611,028
Property and equipment, net	4,243,107	4,211,026
Other assets	245,529	500
	<u>44,901,205</u>	<u>39,544,334</u>
Total assets	\$ 44,901,205	\$ 39,544,334
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 443,160	\$ 301,041
Deposits held for others	21,180	11,119
	<u>464,340</u>	<u>312,160</u>
Total liabilities	464,340	312,160
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	13,060,493	3,400,999
Undesignated	13,392,495	16,616,434
	<u>41,832,988</u>	<u>35,397,433</u>
Temporarily restricted	530,044	1,767,077
Permanently restricted	2,073,833	2,067,664
	<u>2,603,877</u>	<u>3,834,741</u>
Total net assets	44,436,865	39,232,174
	<u>44,901,205</u>	<u>39,544,334</u>
Total liabilities and net assets	\$ 44,901,205	\$ 39,544,334

See Notes to Consolidated Financial Statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Public Support				
Contributions	\$ 11,800,894	\$ 1,001,080	\$ 6,169	\$ 12,808,143
Special event revenue	3,281,000	-	-	3,281,000
Less: cost of direct benefit to donors	(323,000)	-	-	(323,000)
Investment income, net	1,076,281	165,580	-	1,241,861
Other income	110,017	-	-	110,017
Net realized and unrealized loss on investments	(798,988)	(90,113)	-	(889,101)
Net assets released from restrictions	2,313,580	(2,313,580)	-	-
Total support and revenue	17,459,784	(1,237,033)	6,169	16,228,920
Expenses				
Program services:				
Health and welfare	6,033,896	-	-	6,033,896
Education and motivation	1,826,406	-	-	1,826,406
History and heritage	276,167	-	-	276,167
Total program services	8,136,469	-	-	8,136,469
Supporting services:				
General administration	472,618	-	-	472,618
Fundraising	2,415,142	-	-	2,415,142
Total supporting services	2,887,760	-	-	2,887,760
Total expenses	11,024,229	-	-	11,024,229
Change in net assets	6,435,555	(1,237,033)	6,169	5,204,691
Net Assets				
Beginning	35,397,433	1,767,077	2,067,664	39,232,174
Ending	\$ 41,832,988	\$ 530,044	\$ 2,073,833	\$ 44,436,865

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	\$ 9,467,519	\$ 431,586	\$ 20,214	\$ 9,919,319
Special event revenue	2,765,000	-	-	2,765,000
Less: cost of direct benefit to donors	(225,675)	-	-	(225,675)
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)	-	-
Total support and revenue	14,343,054	(51,247)	20,214	14,312,021
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
Total program services	5,416,584	-	-	5,416,584
Supporting services:				
General administration	554,520	-	-	554,520
Fundraising	2,562,133	-	-	2,562,133
Total supporting services	3,116,653	-	-	3,116,653
Total expenses	8,533,237	-	-	8,533,237
Change in net assets before transfers	5,809,817	(51,247)	20,214	5,778,784
Transfers	-	141,743	(141,743)	-
Change in net assets	5,809,817	90,496	(121,529)	5,778,784
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 Functional Expenses

Year Ended December 31, 2014

	Program Services				Supporting Services			
	Health & Welfare	Education & Motivation	History & Heritage	Total	General Administration	Fundraising	Total	Total
Catering, venue, and entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,785,958	\$ 1,785,958	\$ 1,785,958
Command support	1,781,343	-	-	1,781,343	-	-	-	1,781,343
Wounded, death, and resiliency support	1,124,208	-	-	1,124,208	-	-	-	1,124,208
Survivor support	1,125,631	-	-	1,125,631	-	-	-	1,125,631
Children support	1,303,331	-	-	1,303,331	-	-	-	1,303,331
Salaries and wages	236,702	71,487	10,860	319,049	194,833	283,435	478,268	797,317
Scholarships	-	1,142,362	-	1,142,362	-	-	-	1,142,362
Advertising	66,693	18,965	2,881	88,539	19,648	148,105	167,753	256,292
Building expenses	59,334	21,414	1,647	82,395	84,563	-	84,563	166,958
Travel expenses	52,868	8,619	1,309	62,796	8,930	89,369	98,299	161,095
Tuition assistance and test preparation	-	425,328	-	425,328	-	-	-	425,328
Sailor of the year	-	52,181	-	52,181	-	-	-	52,181
Professional fees	67,238	20,307	3,085	90,630	21,038	28,995	50,033	140,663
Postage	-	-	-	-	-	5,905	5,905	5,905
History and heritage	-	-	246,083	246,083	-	-	-	246,083
Dues and subscriptions	590	-	-	590	-	-	-	590
Supplies	137,843	41,630	6,324	185,797	43,129	59,442	102,571	288,368
Miscellaneous	246	-	-	246	26,287	-	26,287	26,533
Bank service charges	32,309	9,758	1,482	43,549	10,109	13,933	24,042	67,591
	5,988,336	1,812,051	273,671	8,074,058	408,537	2,415,142	2,823,679	10,897,737
Depreciation	45,560	14,355	2,496	62,411	64,081	-	64,081	126,492
	\$ 6,033,896	\$ 1,826,406	\$ 276,167	\$ 8,136,469	\$ 472,618	\$ 2,415,142	\$ 2,887,760	\$ 11,024,229

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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,817,245	\$ 1,817,245	\$ 1,817,245
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	2,562,133	3,058,538	8,418,521
Depreciation	40,753	14,716	1,132	56,601	58,115	-	58,115	114,716
	<u>\$ 3,899,800</u>	<u>\$ 1,411,782</u>	<u>\$ 105,002</u>	<u>\$ 5,416,584</u>	<u>\$ 554,520</u>	<u>\$ 2,562,133</u>	<u>\$ 3,116,653</u>	<u>\$ 8,533,237</u>

See Notes to Consolidated Financial Statements.

Navy SEAL Foundation, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 5,204,691	\$ 5,778,784
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	126,492	114,716
Allowance for doubtful collections	(13,764)	(7,082)
Discount on contributions and pledges receivable	(18,025)	(5,319)
Net realized and unrealized loss (gain) on investments	889,101	(1,194,765)
Contributions restricted for investment in endowment	(6,169)	(20,214)
Interest and dividends restricted for long-term investment	(465,549)	(143,747)
Investments donated	(378,557)	(578,740)
Proceeds from sale of donated investments	378,994	571,861
Change in assets and liabilities:		
Contributions and pledges receivable	(492,590)	148,626
Other assets	(245,029)	-
Accounts payable	142,119	179,728
Deposits held for others	10,061	645
Net cash provided by operating activities	5,131,775	4,844,493
Cash Flow From Investing Activities		
Proceeds from sale of investments	17,037,465	9,427,294
Purchases of investments	(21,096,052)	(27,957,693)
Purchases of property and equipment	(158,573)	-
Net cash used in investing activities	(4,217,160)	(18,530,399)
Cash Flow From Financing Activities		
Contributions restricted for investment in endowment	6,169	20,214
Interest and dividends restricted for reinvestment	465,549	143,747
Net cash provided by financing activities	471,718	163,961
Net increase (decrease) in cash	1,386,333	(13,521,945)
Cash		
Beginning	2,831,271	16,353,216
Ending	\$ 4,217,604	\$ 2,831,271

See Notes to Consolidated Financial Statements.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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 for doubtful collections 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. The allowance for doubtful collections was \$0 and \$13,764 at December 31, 2014 and 2013, respectively.

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.

Property and equipment: Property and equipment is stated at cost at the date of acquisition. The Foundation capitalizes expenditures for property and equipment over \$5,000 and with a useful life in excess of one year. Depreciation is computed by the straight-line method over the following estimated useful lives:

Building	40 years
Furniture and equipment	7 years
Leasehold improvements	39 years

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell.

Other assets: Other assets consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Alternative investment redemption receivable	\$ 91,422	\$ -
Prepaid expenses	153,607	-
Other	500	500
	<u>\$ 245,529</u>	<u>\$ 500</u>

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.

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 2011.

Advertising: Advertising costs are expensed as incurred and totaled \$256,292 and \$502,692 for the years ended December 31, 2014 and 2013, respectively.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recently issued accounting pronouncements: In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or Its Equivalent (Topic 820)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share (or its equivalent) using the practical expedient. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to provide information surrounding the nature and risks of investments and whether investments, if sold, are probable of being sold at amounts different from net asset value. The ASU is effective for annual periods beginning after December 15, 2016. Early adoption is permitted. The Foundation is currently evaluating the effect that the provisions of ASU 2015-07 will have on the Foundation's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the effect that the provisions of ASU 2014-09 will have on the Foundation's consolidated financial statements.

Reclassification: Certain amounts in the accompanying consolidated financial statements have been reclassified, with no effect on the change in net assets, to be consistent with the classification adopted for the year ended December 31, 2014.

Subsequent events: The Foundation evaluated subsequent events through August 3, 2015, the date the consolidated financial statements were available to be issued.

Note 2. Property and Equipment

Property and equipment consists of the following at December 31, 2014 and 2013:

	2014	2013
Building	\$ 4,588,625	\$ 4,588,625
Furniture and equipment	77,363	-
Leasehold improvements	28,225	-
Construction in progress	52,985	-
	<u>4,747,198</u>	4,588,625
Less accumulated depreciation	504,091	377,599
	<u>\$ 4,243,107</u>	<u>\$ 4,211,026</u>

Depreciation expense associated with property and equipment was \$126,492 and \$114,716 for the years ended December 31, 2014 and 2013, respectively.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. 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 flow.

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

	<u>2014</u>	<u>2013</u>
Within one year	\$ 1,152,972	\$ 445,382
One to five years	-	215,000
	<u>1,152,972</u>	<u>660,382</u>
Less		
Discount for time-value of money at 1 – 2%	-	18,025
Allowance for doubtful collections	-	13,764
	<u>\$ 1,152,972</u>	<u>\$ 628,593</u>

Note 4. Investments

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

Investment type	<u>2014</u>		<u>2013</u>	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 655,044	\$ 655,044	\$ 321,013	\$ 321,013
Exchange traded funds	8,104,077	8,636,648	7,126,139	7,708,754
Mutual funds	18,220,913	17,622,494	19,867,755	20,538,953
Alternative investment funds	7,292,752	7,516,779	2,480,000	2,693,196
	<u>\$ 34,272,786</u>	<u>\$ 34,430,965</u>	<u>\$ 29,794,907</u>	<u>\$ 31,261,916</u>

Investment income is recorded net of investment advisory and custodial fees. These investment advisory and custodial fees totaled \$67,727 and \$71,133 for the years ended December 31, 2014 and 2013, respectively.

Components of the net realized and unrealized gain (loss) on investments for the years ended December 31, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Unrealized gain (loss)	\$ (1,308,830)	\$ 1,353,281
Realized gain (loss)	419,729	(158,516)
	<u>\$ (889,101)</u>	<u>\$ 1,194,765</u>

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

Alternative investments are less liquid than the Foundation's other investments. Alternative investments include off-shore investment funds 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).

Note 5. 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.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

Alternative investment funds – 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 NAV 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.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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	2014		
		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)
Money market funds (a)	\$ 655,044	\$ 655,044	\$ -	\$ -
Exchange traded funds				
Domestic equity	4,561,848	4,561,848	-	-
Global equity	2,535,403	2,535,403	-	-
Fixed income	1,539,397	1,539,397	-	-
Mutual funds				
Domestic equity	2,805,500	2,805,500	-	-
Global equity	3,443,412	3,443,412	-	-
Real assets	3,322,717	3,322,717	-	-
Fixed income	7,325,200	7,325,200	-	-
Other investments	725,665	725,665	-	-
Alternative investment funds				
Multi-strategy	3,294,272	-	1,707,142	1,587,130
Hedge	2,452,124	-	-	2,452,124
Global macro	828,572	-	-	828,572
Event driven	941,811	-	-	941,811
	\$ 34,430,965	\$ 26,914,186	\$ 1,707,142	\$ 5,809,637

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Description	Total	2013		
		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)
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
	<u>\$ 31,261,916</u>	<u>\$ 28,568,720</u>	<u>\$ 1,142,871</u>	<u>\$ 1,550,325</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.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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:

	Multi- strategy	Hedge	Global Macro	Event Driven	Total
Balance, January 1, 2013	\$ -	\$ -	\$ -	\$ -	\$ -
Purchases of investments	-	1,480,000	-	-	1,480,000
Net change in unrealized appreciation on investments	-	70,325	-	-	70,325
Balance, December 31, 2013	-	1,550,325	-	-	1,550,325
Purchases of investments	1,525,000	1,079,608	800,000	1,000,000	4,404,608
Net change in unrealized appreciation (depreciation) on investments	62,130	(85,953)	28,572	(58,189)	(53,440)
Sales of investments	-	(91,442)	-	-	(91,442)
Realized loss	-	(414)	-	-	(414)
Balance, December 31, 2014	\$ 1,587,130	\$ 2,452,124	\$ 828,572	\$ 941,811	\$ 5,809,637

The total change in unrealized appreciation (depreciation) included in the consolidated statements of activities attributable to Level 3 investment still held at December 31, 2014 and 2013 is (\$49,915) and \$70,325, respectively.

There were no transfers among Levels 1, 2, and 3 for the years ended December 31, 2014 and 2013.

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 at December 31, 2014 and 2013:

Strategy Category	2014	2013	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy (a)	\$ 3,294,272	\$ 1,142,871	Quarterly	60 - 90 days
Hedge (b)	2,452,124	1,550,325	N/A	N/A
Global macro (c)	828,572	-	Semi-annual	60 days
Event driven (d)	941,811	-	Annual	45 days
	<u>\$ 7,516,779</u>	<u>\$ 2,693,196</u>		

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

(a) This category includes investment in two funds at December 31, 2014 and one fund at December 31, 2013. Approximately 52% of the balance at December 31, 2014 and 100% at December 31, 2013 in this category is invested 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. Approximately 48% of the balance at December 31, 2014 in this category represents an investment purchased during the year ended. The balance is invested 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 activity on behalf of the fund. The investment objective of the master fund is to achieve capital appreciation through trading fixed income products, options, future, and other financial instruments. 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.

(c) 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 seek high risk-adjusted total returns by making directional and relative value investments, long and short, primarily through investment positions in equity, debt (primarily sovereign debt), local interest rates, currencies and commodities across emerging and developed markets. The fund is located in the Cayman Islands.

(d) 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 invest in financial instruments traded in the United States and other foreign markets. The fund is located in the Cayman Islands.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Funding of health and welfare programs	\$ 87,738	\$ 778,498
Funding of operations	-	626,005
Funding of endowment	442,306	362,574
	<u>\$ 530,044</u>	<u>\$ 1,767,077</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>2014</u>	<u>2013</u>
Funding of health and welfare programs	\$ 1,266,968	\$ 403,444
Funding of operations	691,302	-
Funding of education and motivation programs	355,310	352,139
Funding of other programs	-	600
	<u>\$ 2,313,580</u>	<u>\$ 756,183</u>

Permanently restricted net assets at December 31, 2014 and 2013, are restricted to investment in perpetuity, and the income earned is expendable to support all Foundation expenses. Permanently restricted net assets at December 31, 2014 and 2013, 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.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Restricted Net Assets (Continued)

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

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, 2014 and 2013, is shown in the following tables:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	\$ 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	3,400,999	362,574	2,067,664	5,831,237
Investment return:				
Investment income, net	308,026	157,523	-	465,549
Realized and unrealized gains (losses)	(182,144)	(77,791)	-	(259,935)
Total investment return	125,882	79,732	-	205,614
Contributions	-	-	6,169	6,169
Board designated transfer	9,533,612	-	-	9,533,612
Endowment net assets, December 31, 2014	\$ 13,060,493	\$ 442,306	\$ 2,073,833	\$ 15,576,632

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

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Subsequent Events

Effective July 1, 2015, the Foundation entered into a Funding and Collaboration Agreement with the Honor Foundation (THF), a non-profit organization established to assist in bridging military and private sector careers through an innovative transition program created for members of the Special Operations Forces community. Under the agreement, the Foundation committed \$2 million in funding to support THF programs. The amount committed will be paid monthly in installments through December 2017.