

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2015

Contents

Independent auditor's report	1-2
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Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4-5
Consolidated statements of functional expenses	6-7
Consolidated statements of cash flows	8
Notes to consolidated financial statements	9-22



RSM US LLP

Independent Auditor's Report

To the Board of Directors
Navy SEAL Foundation, Inc. and Subsidiary

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, 2015 and 2014, 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 (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navy SEAL Foundation, Inc. and Subsidiary as of December 31, 2015 and 2014, 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.

RSM US LLP

Richmond, Virginia
July 8, 2016

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 4,394,340	\$ 4,217,604
Contributions and pledges receivable	1,302,502	1,152,972
Investments, at fair value	34,681,950	34,430,965
Other investments, at cost	611,028	611,028
Property and equipment, net	4,221,563	4,243,107
Other assets	1,416,602	245,529
	<u>46,627,985</u>	<u>44,901,205</u>
Total assets	\$ 46,627,985	\$ 44,901,205
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 985,690	\$ 443,160
Deposits held for others	-	21,180
	<u>985,690</u>	<u>464,340</u>
Total liabilities	985,690	464,340
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	12,531,071	13,060,493
Undesignated	15,288,106	13,392,495
	<u>43,199,177</u>	<u>41,832,988</u>
Temporarily restricted	363,560	530,044
Permanently restricted	2,079,558	2,073,833
	<u>2,079,558</u>	<u>2,073,833</u>
Total net assets	45,642,295	44,436,865
	<u>45,642,295</u>	<u>44,436,865</u>
Total liabilities and net assets	\$ 46,627,985	\$ 44,901,205
	<u>\$ 46,627,985</u>	<u>\$ 44,901,205</u>

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and public support:				
Contributions	\$ 5,700,104	\$ 719,769	\$ 5,725	\$ 6,425,598
Special event revenue	11,061,750	-	-	11,061,750
Less cost of direct benefit to donors	(784,610)	-	-	(784,610)
Investment income, net	1,044,202	54,837	-	1,099,039
Net realized and unrealized loss on investments	(2,228,261)	(127,098)	-	(2,355,359)
Net assets released from restrictions	813,992	(813,992)	-	-
Total support and revenue	15,607,177	(166,484)	5,725	15,446,418
Expenses:				
Program services:				
Health and welfare	8,262,700	-	-	8,262,700
Education and motivation	2,477,666	-	-	2,477,666
History and heritage	134,052	-	-	134,052
Total program services	10,874,418	-	-	10,874,418
Supporting services:				
General administration	460,565	-	-	460,565
Fundraising	2,906,005	-	-	2,906,005
Total supporting services	3,366,570	-	-	3,366,570
Total expenses	14,240,988	-	-	14,240,988
Change in net assets	1,366,189	(166,484)	5,725	1,205,430
Net assets:				
Beginning	41,832,988	530,044	2,073,833	44,436,865
Ending	\$ 43,199,177	\$ 363,560	\$ 2,079,558	\$ 45,642,295

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	\$ 8,830,894	\$ 1,001,080	\$ 6,169	\$ 9,838,143
Special event revenue	6,251,000	-	-	6,251,000
Less cost of direct benefit to donors	(837,950)	-	-	(837,950)
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	16,944,834	(1,237,033)	6,169	15,713,970
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	1,900,192	-	-	1,900,192
Total supporting services	2,372,810	-	-	2,372,810
Total expenses	10,509,279	-	-	10,509,279
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 Functional Expenses
Year Ended December 31, 2015**

	Program Services				Supporting Services			
	Health and Welfare	Education and Motivation	History and Heritage	Total	General Administration	Fundraising	Total	Total
Catering, venue and entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,317,456	\$ 2,317,456	\$ 2,317,456
Command support	1,730,159	-	-	1,730,159	-	-	-	1,730,159
Transition assistance	932,890	-	-	932,890	-	-	-	932,890
Wounded, death and resiliency support	1,730,993	-	-	1,730,993	-	-	-	1,730,993
Survivor support	1,266,826	-	-	1,266,826	-	-	-	1,266,826
Children support	1,649,002	-	-	1,649,002	-	-	-	1,649,002
Salaries and wages	413,271	124,750	6,603	544,624	285,462	296,105	581,567	1,126,191
Scholarships	-	1,825,248	-	1,825,248	-	-	-	1,825,248
Advertising	140,302	36,030	2,119	178,451	8,478	132,973	141,451	319,902
Building expenses	59,259	21,399	1,646	82,304	84,506	9,000	93,506	175,810
Travel expenses	69,496	5,048	297	74,841	1,188	49,267	50,455	125,296
Tuition assistance and test preparation	-	292,306	-	292,306	-	-	-	292,306
Sailor of the year	-	89,000	-	89,000	-	-	-	89,000
Professional fees	107,521	33,234	1,955	142,710	7,820	44,963	52,783	195,493
Postage	19,069	5,894	347	25,310	1,387	7,974	9,361	34,671
History and heritage	-	-	116,786	116,786	-	-	-	116,786
Dues and subscriptions	7,197	2,224	131	9,552	523	10,302	10,825	20,377
Supplies	34,364	10,622	625	45,611	2,499	14,370	16,869	62,480
Miscellaneous	6,193	1,914	113	8,220	450	2,589	3,039	11,259
Bank service charges	50,231	15,526	913	66,670	3,653	21,006	24,659	91,329
	8,216,773	2,463,195	131,535	10,811,503	395,966	2,906,005	3,301,971	14,113,474
Depreciation	45,927	14,471	2,517	62,915	64,599	-	64,599	127,514
	\$ 8,262,700	\$ 2,477,666	\$ 134,052	\$ 10,874,418	\$ 460,565	\$ 2,906,005	\$ 3,366,570	\$ 14,240,988

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 and Welfare	Education and Motivation	History and Heritage	Total	General Administration	Fundraising	Total	Total
Catering, venue and entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,271,008	\$ 1,271,008	\$ 1,271,008
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	1,900,192	2,308,729	10,382,787
Depreciation	45,560	14,355	2,496	62,411	64,081	-	64,081	126,492
	<u>\$ 6,033,896</u>	<u>\$ 1,826,406</u>	<u>\$ 276,167</u>	<u>\$ 8,136,469</u>	<u>\$ 472,618</u>	<u>\$ 1,900,192</u>	<u>\$ 2,372,810</u>	<u>\$ 10,509,279</u>

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 1,205,430	\$ 5,204,691
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	127,514	126,492
Allowance for doubtful collections	-	(13,764)
Discount on contributions and pledges receivable	-	(18,025)
Net realized and unrealized loss on investments	2,355,359	889,101
Contributions restricted for investment in endowment	(5,725)	(6,169)
Interest and dividends restricted for long-term investment	(373,420)	(465,549)
Investments donated	(532,612)	(378,557)
Proceeds from sale of donated investments	535,607	378,994
Change in assets and liabilities:		
Contributions and pledges receivable	(149,530)	(492,590)
Other assets	(340,321)	(245,029)
Accounts payable	542,530	142,119
Deposits held for others	(21,180)	10,061
Net cash provided by operating activities	3,343,652	5,131,775
Cash flow from investing activities:		
Proceeds from sale of investments	16,972,700	17,037,465
Purchases of investments	(20,412,791)	(21,096,052)
Purchases of property and equipment	(105,970)	(158,573)
Net cash used in investing activities	(3,546,061)	(4,217,160)
Cash flow from financing activities:		
Contributions restricted for investment in endowment	5,725	6,169
Interest and dividends restricted for reinvestment	373,420	465,549
Net cash provided by financing activities	379,145	471,718
Net increase in cash	176,736	1,386,333
Cash:		
Beginning	4,217,604	2,831,271
Ending	\$ 4,394,340	\$ 4,217,604

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 nonprofit 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. There was no allowance for doubtful collections at December 31, 2015 and 2014.

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. Management has determined that there is no impairment of other investments as of December 31, 2015.

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 in 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, 2015 and 2014:

	2015	2014
Alternative investment redemption receivable	\$ 830,752	\$ 91,422
Prepaid expenses	491,470	153,607
Other	94,380	500
	<u>\$ 1,416,602</u>	<u>\$ 245,529</u>

Contributions revenue: Contributions revenue is reported net of fees related to online 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 2012.

Advertising: Advertising costs are expensed as incurred and totaled \$319,902 and \$256,292 for the years ended December 31, 2015 and 2014, 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update (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 GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the standard 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, 2015.

Subsequent events: The Foundation evaluated subsequent events through July 8, 2016, 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, 2015 and 2014:

	2015	2014
Building	\$ 4,694,595	\$ 4,588,625
Furniture and equipment	77,363	77,363
Leasehold improvements	28,225	28,225
Construction in progress	52,985	52,985
	4,853,168	4,747,198
Less accumulated depreciation	631,605	504,091
	<u>\$ 4,221,563</u>	<u>\$ 4,243,107</u>

Depreciation expense associated with property and equipment was \$127,514 and \$126,492 for the years ended December 31, 2015 and 2014, 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.

Contributions and pledges receivable at December 31, 2015 and 2014, are expected to be collected within one year. Therefore, management determined that a discount for time-value of money was not necessary. Management has also determined that an allowance for doubtful collections is not necessary as of December 31, 2015 and 2014.

Note 4. Investments

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Investment type:				
Money market funds	\$ 281,448	\$ 281,448	\$ 655,044	\$ 655,044
Exchange traded funds	9,907,288	9,893,288	8,104,077	8,636,648
Mutual funds	19,033,203	17,750,754	18,220,913	17,622,494
Alternative investment funds	6,462,949	6,756,460	7,292,752	7,516,779
	<u>\$ 35,684,888</u>	<u>\$ 34,681,950</u>	<u>\$ 34,272,786</u>	<u>\$ 34,430,965</u>

Investment income is recorded net of investment advisory and custodial fees. These investment advisory and custodial fees totaled \$76,294 and \$67,727 for the years ended December 31, 2015 and 2014, respectively.

Components of the net realized and unrealized (loss) gain on investments for the years ended December 31, 2015 and 2014, consist of the following:

	2015	2014
Unrealized loss	\$ (1,161,117)	\$ (1,308,830)
Realized (loss) gain	(1,194,242)	419,729
	<u>\$ (2,355,359)</u>	<u>\$ (889,101)</u>

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).

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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	2015			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)	
Money market funds (a)	\$ 281,448	\$ -	\$ -	\$ 281,448
Exchange traded funds:				
Domestic equity	3,454,723	-	-	3,454,723
Global equity	4,329,886	-	-	4,329,886
Fixed income	2,108,679	-	-	2,108,679
Mutual funds:				
Domestic equity	7,224,373	-	-	7,224,373
Global equity	2,066,736	-	-	2,066,736
Real assets	2,413,304	-	-	2,413,304
Fixed income	6,046,341	-	-	6,046,341
Alternative investment funds:				
Multi-strategy	-	1,687,662	1,777,516	3,465,178
Hedge	-	-	2,475,125	2,475,125
Global macro	-	-	816,157	816,157
	<u>\$ 27,925,490</u>	<u>\$ 1,687,662</u>	<u>\$ 5,068,798</u>	<u>\$ 34,681,950</u>

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Description	2014			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)	
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	-	1,707,142	1,587,130	3,294,272
Hedge	-	-	2,452,124	2,452,124
Global macro	-	-	828,572	828,572
Event driven	-	-	941,811	941,811
	<u>\$ 26,914,186</u>	<u>\$ 1,707,142</u>	<u>\$ 5,809,637</u>	<u>\$ 34,430,965</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, 2014	\$ -	\$ 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
Purchases of investments	-	170,197	-	-	170,197
Net change in unrealized appreciation					
(depreciation) on investments	190,386	(147,196)	(12,415)	58,189	88,964
Sales of investments	-	-	-	(830,752)	(830,752)
Realized loss	-	-	-	(169,248)	(169,248)
Balance, December 31, 2015	\$ 1,777,516	\$ 2,475,125	\$ 816,157	\$ -	\$ 5,068,798

The total change in unrealized appreciation (depreciation) included in the consolidated statements of activities attributable to Level 3 investment still held at December 31, 2015 and 2014, is \$30,775 and (\$49,915), respectively.

There were no transfers among Levels 1, 2 and 3 for the years ended December 31, 2015 and 2014.

The following table provides 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, 2015 and 2014:

Strategy Category	2015	2014	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy (a)	\$ 3,465,178	\$ 3,294,272	Quarterly	60-90 days
Hedge (b)	2,475,125	2,452,124	N/A	N/A
Global macro (c)	816,157	828,572	Semi-annual	60 days
Event driven (d)	-	941,811	Annual	45 days
	<u>\$ 6,756,460</u>	<u>\$ 7,516,779</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, 2015 and 2014. Approximately 49% of the balance at December 31, 2015, and 52% at December 31, 2014, 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 51% of the balance at December 31, 2015, and 48% at December 31, 2014, 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 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. Redemptions from this fund are limited to 25% of investment balance per quarter. As such, due to limitations on redemption frequency, the investment is recorded as Level 3. 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. 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 fund is located in the Cayman Islands.

(d) This category included an investment in a fund that invested substantially all of its net assets in a limited partnership (master fund), which in turn conducted substantially all investment and trading activities on behalf of the fund. The investment objective of the master fund was to invest in financial instruments traded in the United States and other foreign markets. The fund was located in the Cayman Islands. The Foundation redeemed 100% of its interest in the fund during the year ended December 31, 2015.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and 2014, are available for the following purposes and periods:

	2015	2014
Funding of health and welfare programs	\$ -	\$ 87,738
Funding of endowment	363,560	442,306
	<u>\$ 363,560</u>	<u>\$ 530,044</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, 2015 and 2014, as follows:

	2015	2014
Funding of health and welfare programs	\$ 148,811	\$ 1,266,968
Funding of operations	-	691,302
Funding of tragedy assistance and survivor support	245,475	-
Funding of education and motivation programs	419,706	355,310
	<u>\$ 813,992</u>	<u>\$ 2,313,580</u>

Permanently restricted net assets at December 31, 2015 and 2014, are restricted to investment in perpetuity, and the income earned is expendable to support all Foundation expenses. Permanently restricted net assets at December 31, 2015 and 2014, 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, 2015 and 2014, is shown in the following tables:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2014	\$ 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
Transfers	9,533,612	-	-	9,533,612
Endowment net assets, December 31, 2014	13,060,493	442,306	2,073,833	15,576,632
Investment return:				
Investment income, net	325,068	48,352	-	373,420
Realized and unrealized losses	(854,490)	(127,098)	-	(981,588)
Total investment return	(529,422)	(78,746)	-	(608,168)
Contributions	-	-	5,725	5,725
Endowment net assets, December 31, 2015	\$ 12,531,071	\$ 363,560	\$ 2,079,558	\$ 14,974,189

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 January 29, 2016, the Foundation entered into a Grant Agreement with the Diana Davis Spencer Foundation, Inc., a private charitable foundation established to provide critical services in support of the health, welfare and resiliency of U.S. Naval Special Warfare personnel, including their families, families of the fallen, wounded and transitioning veterans. Under the agreement, the Foundation received a one-time grant of \$3.25 million. The grant was restricted to support two programs: mental health/traumatic brain injury and children's programs.