Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2017

Contents

Independent Auditor's Report

To the Board of Directors
Navy SEAL Foundation, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Navy SEAL Foundation, Inc. and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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, the 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of 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.

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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 its subsidiary as of December 31, 2017 and 2016, 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 24, 2018

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 7,012,185**	$ 3,669,516
Contributions receivable	**800,733**	260,475
Investments, at fair value	**66,095,694**	46,993,763
Other investments, at cost	**611,028**	611,028
Alternative investments redemption receivable	**918,197**	-
Property and equipment, net	**4,022,929**	4,153,499
Other assets	**294,670**	396,388
Total assets	**$ 79,755,436**	$ 56,084,669
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 1,028,039**	$ 781,341
Total liabilities	**1,028,039**	781,341
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	**15,463,224**	13,203,822
Undesignated	**43,897,061**	24,162,756
	74,740,285	52,746,578
Temporarily restricted	**905,554**	475,192
Permanently restricted	**3,081,558**	2,081,558
Total net assets	**78,727,397**	55,303,328
Total liabilities and net assets	**$ 79,755,436**	$ 56,084,669

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and public support:				
Contributions	$ 20,870,599	$ 1,417,321	$ 1,000,000	$ 23,287,920
Special event revenue	13,718,800	-	-	13,718,800
Less cost of direct benefit to donors	(857,800)	-	-	(857,800)
Investment income, net	1,215,980	60,877	-	1,276,857
Net realized and unrealized gain on investments	5,830,936	369,485	-	6,200,421
Net assets released from restrictions	1,417,321	(1,417,321)	-	-
Total support and revenue	42,195,836	430,362	1,000,000	43,626,198
Expenses:				
Program services:				
Health and welfare	11,005,355	-	-	11,005,355
Education and motivation	3,407,810	-	-	3,407,810
History and heritage	160,274	-	-	160,274
Total program services	14,573,439	-	-	14,573,439
Supporting services:				
General administration	835,240	-	-	835,240
Fundraising	4,793,450	-	-	4,793,450
Total supporting services	5,628,690	-	-	5,628,690
Total expenses	20,202,129	-	-	20,202,129
Change in net assets	21,993,707	430,362	1,000,000	23,424,069
Net assets:				
Beginning	52,746,578	475,192	2,081,558	55,303,328
Ending	$ 74,740,285	$ 905,554	$ 3,081,558	$ 78,727,397

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and public support:				
Contributions	$ 13,204,954	$ 4,092,235	$ 2,000	$ 17,299,189
Special event revenue	8,221,500	-	-	8,221,500
Less cost of direct benefit to donors	(714,725)	-	-	(714,725)
Investment income, net	704,983	32,000	-	736,983
Net realized and unrealized gain on investments	1,439,225	78,038	-	1,517,263
Net assets released from restrictions	4,090,641	(4,090,641)	-	-
Total support and revenue	26,946,578	111,632	2,000	27,060,210
Expenses:				
Program services:				
Health and welfare	10,369,002	-	-	10,369,002
Education and motivation	2,876,580	-	-	2,876,580
History and heritage	138,643	-	-	138,643
Total program services	13,384,225	-	-	13,384,225
Supporting services:				
General administration	628,084	-	-	628,084
Fundraising	3,386,868	-	-	3,386,868
Total supporting services	4,014,952	-	-	4,014,952
Total expenses	17,399,177	-	-	17,399,177
Change in net assets	9,547,401	111,632	2,000	9,661,033
Net assets:				
Beginning	43,199,177	363,560	2,079,558	45,642,295
Ending	$ 52,746,578	$ 475,192	$ 2,081,558	$ 55,303,328

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services				Supporting Services			
	Health and Welfare	Education and Motivation	History and Heritage	Total	General Administration	Fundraising	Total	Total
Catering, venue, and entertainment	$ -	$ -	$ -	$ -	$ -	$ 4,304,496	$ 4,304,496	$ 4,304,496
Command support	1,101,226	-	-	1,101,226	-	-	-	1,101,226
Family support	1,256,098	-	-	1,256,098	-	-	-	1,256,098
Transition assistance	-	843,607	-	843,607	-	-	-	843,607
Wounded, death and resiliency support	2,827,244	-	-	2,827,244	-	-	-	2,827,244
Survivor support	1,918,725	10,000	-	1,928,725	-	-	-	1,928,725
Children support	2,056,127	-	-	2,056,127	-	-	-	2,056,127
Salaries and wages	598,817	184,753	8,731	792,301	400,828	409,710	810,538	1,602,839
Scholarships	-	1,901,000	-	1,901,000	-	-	-	1,901,000
Advertising	163,564	50,454	2,382	216,400	98,674	-	98,674	315,074
Building expenses	72,459	21,928	953	95,340	97,891	-	97,891	193,231
Travel expenses	122,090	37,661	1,778	161,529	73,654	-	73,654	235,183
Tuition assistance and test preparation	-	115,751	-	115,751	-	-	-	115,751
Professional fees	148,313	45,749	2,160	196,222	10,229	79,244	89,473	285,695
Postage	16,962	5,232	247	22,441	10,233	-	10,233	32,674
Veteran care	546,166	137,188	850	684,204	-	-	-	684,204
Legacy preservation	-	-	140,656	140,656	-	-	-	140,656
Dues and subscriptions	22,398	6,909	326	29,633	13,512	-	13,512	43,145
Supplies	44,262	13,653	645	58,560	26,705	-	26,705	85,265
Bank service charges	61,942	19,107	902	81,951	37,368	-	37,368	119,319
	10,956,393	3,392,992	159,630	14,509,015	769,094	4,793,450	5,562,544	20,071,559
Depreciation	48,962	14,818	644	64,424	66,146	-	66,146	130,570
	$ 11,005,355	$ 3,407,810	$ 160,274	$ 14,573,439	$ 835,240	$ 4,793,450	$ 5,628,690	$ 20,202,129

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services				Supporting Services			
	Health and Welfare	Education and Motivation	History and Heritage	Total	General Administration	Fundraising	Total	Total
Catering, venue and entertainment	$ -	$ -	$ -	$ -	$ -	$ 2,813,250	$ 2,813,250	$ 2,813,250
Command support	2,865,446	-	-	2,865,446	-	-	-	2,865,446
Transition assistance	48,487	811,553	-	860,040	-	-	-	860,040
Wounded, death and resiliency support	2,340,998	-	-	2,340,998	-	-	-	2,340,998
Survivor support	1,868,352	-	-	1,868,352	-	-	-	1,868,352
Children support	1,729,833	-	-	1,729,833	-	-	-	1,729,833
Salaries and wages	493,289	135,959	6,589	635,837	307,871	372,954	680,825	1,316,662
Scholarships	375,000	1,601,563	-	1,976,563	-	-	-	1,976,563
Advertising	124,652	34,356	1,665	160,673	37,910	47,705	85,615	246,288
Building expenses	70,947	20,271	921	92,139	94,604	-	94,604	186,743
Travel expenses	91,154	25,124	1,218	117,496	27,723	34,886	62,609	180,105
Tuition assistance and test preparation	-	137,347	-	137,347	-	-	-	137,347
Professional fees	65,290	17,995	872	84,157	19,857	24,987	44,844	129,001
Postage	20,861	5,750	279	26,890	6,344	7,984	14,328	41,218
History and heritage	13,920	-	123,483	137,403	-	-	-	137,403
Dues and subscriptions	45,567	12,559	609	58,735	13,858	17,439	31,297	90,032
Supplies	88,539	24,403	1,183	114,125	26,927	33,885	60,812	174,937
Miscellaneous	4,261	15,462	208	19,931	4,702	5,917	10,619	30,550
Bank service charges	72,800	20,065	972	93,837	22,141	27,861	50,002	143,839
	10,319,396	2,862,407	137,999	13,319,802	561,937	3,386,868	3,948,805	17,268,607
Depreciation	49,606	14,173	644	64,423	66,147	-	66,147	130,570
	$ 10,369,002	$ 2,876,580	$ 138,643	$ 13,384,225	$ 628,084	$ 3,386,868	$ 4,014,952	$ 17,399,177

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 23,424,069**	$ 9,661,033
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**130,570**	130,570
Net realized and unrealized gain on investments	**(6,200,421)**	(1,517,263)
Contributions restricted for investment in endowment	**(1,000,000)**	(2,000)
Interest and dividends restricted for long-term investment	**(380,480)**	(230,467)
Investments donated	**(1,054,237)**	(729,063)
Proceeds from sale of donated investments	**1,180,480**	699,049
Change in assets and liabilities:		
Contributions receivable	**(540,258)**	1,042,027
Other assets	**101,718**	1,020,214
Accounts payable and accrued expenses	**246,698**	(204,349)
Net cash provided by operating activities	**15,908,139**	9,869,751
Cash flow from investing activities:		
Proceeds from sale of investments	**17,645,618**	42,533,773
Purchases of investments	**(31,591,568)**	(53,298,309)
Purchases of property and equipment	**-**	(62,506)
Net cash used in investing activities	**(13,945,950)**	(10,827,042)
Cash flow from financing activities:		
Contributions restricted for investment in endowment	**1,000,000**	2,000
Interest and dividends restricted for reinvestment	**380,480**	230,467
Net cash provided by financing activities	**1,380,480**	232,467
Net increase (decrease) in cash and cash equivalents	**3,342,669**	(724,824)
Cash and cash equivalents:		
Beginning	**3,669,516**	4,394,340
Ending	**$ 7,012,185**	$ 3,669,516

See notes to consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: 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.

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 unconditional support is recognized when received 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.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash equivalents include certain money market accounts and certificates of deposit which have maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates market value. 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.

Contributions receivable: Unconditional contributions that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions that are expected to be collected in future years are recorded 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 receivable are written off when deemed uncollectible.

Investments, at fair value: Security transactions are recorded on a trade-date basis and are carried at fair value. The net realized and unrealized gains and losses are reflected in the accompanying consolidated statements 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. The unrealized gain or loss is calculated as the difference between the cost basis of the investment and the fair value of the investment at the measurement date. 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, debt securities 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.

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). Alternative investments are measured at the net asset value (NAV) using the practical expedient in ASC 820, Fair Value Measurement.

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 the investment has been impaired. Management has determined that there is no impairment of other investments as of December 31, 2017 and 2016.

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.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property and equipment: Property and equipment is stated at cost at the date of acquisition, less accumulated depreciation. 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 on leased land and improvements	39 - 40 years
Furniture and equipment	7 years
Vehicles	7 years

Valuation of long-lived assets: Long-lived assets, such as the building, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount 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.

Contributions: Unconditional contributions are 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 contributions are not included as revenue until such time as the conditions are substantially met.

Special event revenue: Special event revenue is recognized either when the event is held or when the underlying contribution becomes unconditional. Revenue collected in advance of the event that is conditioned on the event occurring is recognized as deferred revenue.

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 2014.

Advertising: Advertising costs are expensed as incurred and totaled $315,074 and $246,288 for the years ended December 31, 2017 and 2016, respectively.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Recently adopted accounting pronouncement: 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 NAV per share (or its equivalent) using the practical expedient. Investments that calculate NAV 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 NAV (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 NAV. The ASU is effective for annual periods beginning after December 15, 2016. The Foundation adopted the provisions this ASU and the impact of the adoption is reflected in Note 5.

Recently issued accounting pronouncements: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Foundation is in the process of evaluating the impact of this new guidance on its consolidated 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 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.

Subsequent events: The Foundation evaluated subsequent events through July 24, 2018, 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, 2017 and 2016:

	2017	2016
Building on leased land	$ 4,789,811	$ 4,789,811
Furniture and equipment	77,363	77,363
Vehicles	48,500	48,500
	4,915,674	4,915,674
Less accumulated depreciation	892,745	762,175
	$ 4,022,929	$ 4,153,499

The building in which the Foundation operates is located on land leased from the United States Government. The lease comes up for renewal every five years and the Foundation expects to continue to lease the land through the estimated useful life of the building. Payments under the lease are nominal and the land is located on the Joint Expeditionary Base-Little Creek in Virginia Beach, Virginia. Depreciation expense associated with property and equipment was $130,570 for the years ended December 31, 2017 and 2016.

Note 3. Contributions Receivable

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and public support in the appropriate net asset category. Contributions expected to be received in periods greater than one year are recorded at the discounted present value of the future cash flow. Contributions receivable at December 31, 2017 and 2016, 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, 2017 and 2016.

Note 4. Investments

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

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 576,285	$ 576,285	$ 782,482	$ 782,482
Certificates of deposit	999,500	998,311	2,500,000	2,523,060
Exchange traded funds	34,423,454	40,067,271	22,773,341	23,130,867
Mutual funds	16,169,235	16,072,809	9,284,794	9,043,859
Corporate bonds	1,461,887	1,483,053	1,445,497	1,393,261
Government obligations	2,515,950	2,503,986	2,927,117	2,839,141
Alternative investment funds	3,325,000	4,393,979	6,815,596	7,281,093
	$ 59,471,311	$ 66,095,694	$ 46,528,827	$ 46,993,763

Investment income is recorded net of investment advisory and custodial fees. These investment advisory and custodial fees totaled $170,005 and $118,232 for the years ended December 31, 2017 and 2016, respectively.

Note 4. Investments (Continued)

Components of the net realized and unrealized gain on investments for the years ended December 31, 2017 and 2016, consist of the following:

	2017	2016
Unrealized gain	$ 6,159,447	$ 1,467,874
Realized gain	40,974	49,389
	$ 6,200,421	$ 1,517,263

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 and certain over-the-counter derivatives. 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.

Note 5. Fair Value Measurements (Continued)

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

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

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

Money market funds, exchange-traded funds and mutual funds: Investments 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.

Corporate bonds: The fair value of corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer and credit default swap spreads adjusted for any basis difference between cash and derivative instruments. Although most corporate bonds are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations or similar observable inputs, they are categorized in Level 3.

Government obligations: U.S. Government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers and reference data. Certain securities are valued principally using dealer quotations. As these securities are normally valued using observable data, government obligations are categorized in Level 2 of the fair value hierarchy.

Alternative investment funds: Alternative investments are hedge fund of funds and futures, including investments in the following: equity long/short hedge funds, commodity futures and contract futures, multi-strategy hedge funds and real estate hedge funds and private equity. These amounts are measured at the NAV using the practical expedient in ASC 820 and are no longer required to be categorized in the fair value hierarchy. There are no unfunded commitments associated with the alternative investment funds.

In determining fair value, the Foundation utilizes the NAV provided by the underlying fund investment managers under the practical expedient. 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.

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:

	2017			
	Fair Value Measurements Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market funds (a)	$ 576,285	$ -	$ -	$ 576,285
Exchange-traded funds:				
Domestic equity	21,738,373	-	-	21,738,373
Global equity	15,343,858	-	-	15,343,858
Fixed income	2,985,040	-	-	2,985,040
Mutual funds:				
Equities	5,894,800	-	-	5,894,800
Fixed income	10,178,009	-	-	10,178,009
Corporate bonds	-	1,483,053	-	1,483,053
Government obligations	-	2,503,986	-	2,503,986
	$ 56,716,365	$ 3,987,039	$ -	60,703,404
Certificates of deposit (b)				998,311
Alternative investment funds - at net asset value (c)				4,393,979
				$ 66,095,694

Note 5. Fair Value Measurements (Continued)

	2016			
	Fair Value Measurements Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market funds (a)	$ 782,482	$ -	$ -	$ 782,482
Exchange-traded funds:				
Domestic equity	12,490,294	-	-	12,490,294
Global equity	9,305,255	-	-	9,305,255
Fixed income	1,335,318	-	-	1,335,318
Mutual funds:				
Equities	2,186,446	-	-	2,186,446
Real assets	1,274,664	-	-	1,274,664
Fixed income	5,582,749	-	-	5,582,749
Corporate bonds	-	1,393,261	-	1,393,261
Government obligations	-	2,839,141	-	2,839,141
	$ 32,957,208	$ 4,232,402	$ -	37,189,610
Certificates of deposit (b)				2,523,060
Alternative investment funds - at net asset value (c)				7,281,093
				$ 46,993,763

(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.

(b) Certificates of deposit with original maturities greater than three months are included within investments, at fair value and include accrued interest. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

(c) In accordance with the Fair Value Measurements topic, certain investments that were measured at NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Note 5. Fair Value Measurements (Continued)

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, 2017 and 2016:

Strategy Category	2017	2016	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy (a)	$ 4,393,979	$ 3,935,736	Quarterly	60-90 days
Hedge (b)	-	2,469,781	Quarterly	65 days
Global macro (c)	-	875,576	Semi-annual	60 days
	$ 4,393,979	$ 7,281,093		

(a) This category includes investment in three funds at December 31, 2017 and 2016. Approximately 48% of the balance at December 31, 2017, and 46% at December 31, 2016, 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 fund is located in the Cayman Islands.

Approximately 44% of the balance at December 31, 2017, and 46% at December 31, 2016, 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 though trading fixed income products, options, future, and other financial instruments. Redemptions from this fund are limited to 25% of investment balance per quarter. The fund is located in the Cayman Islands.

Approximately 8% of the balance at December 31, 2017 and 2016, 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 mater fund is to achieve a position return on capital through multiple strategies, including investment in credit and credit structured products, over the counter and exchange traded derivatives, equity securities, government securities and commodities. Redemptions requests are subject to certain fees. The fund is located in the Cayman Islands.

(b) This category included an investment in a fund whose objective was to seek capital appreciation through investing in investment funds managed by third-party investment managers that employed a variety of alternative investment strategies. These investment strategies allowed investment managers to use leveraged or short-sale positions to take advantage of perceived inefficiencies across the global capital markets. Redemption requests were dependent on approval of the fund. The Foundation liquidated this investment during the year ended December 31, 2017.

Note 5. Fair Value Measurements (Continued)

(c) 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 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 Foundation liquidated this investment during the year ended December 31, 2017.

Note 6. Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, are available for the following purposes and periods:

	2017	2016
Funding of endowment	$ 905,554	$ 473,598
Funding of tragedy assistance and survivor support	-	1,594
	$ 905,554	$ 475,192

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, 2017 and 2016, as follows:

	2017	2016
Funding of health and welfare programs	$ 444,478	$ 3,363,575
Funding of tragedy assistance and survivor support	-	525,560
Funding of legacy preservation	2,051	-
Funding of education and motivation programs	435,779	201,506
Funding of operations - Hawaii	535,013	-
	$ 1,417,321	$ 4,090,641

Permanently restricted net assets at December 31, 2017 and 2016, are restricted to investment in perpetuity, and the income earned is expendable to support all Foundation expenses. Permanently restricted net assets at December 31, 2017 and 2016, 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.

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, 2017 and 2016, is shown in the following tables:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 12,531,071	$ 365,154	$ 2,079,558	$ 14,975,783
Investment return:				
Investment income, net	198,467	32,000	-	230,467
Realized and unrealized gains	474,284	78,038	-	552,322
Total investment return	672,751	110,038	-	782,789
Contributions	-	-	2,000	2,000
Endowment net assets, December 31, 2016	13,203,822	475,192	2,081,558	15,760,572
Investment return:				
Investment income, net	319,603	60,877	-	380,480
Realized and unrealized gains	1,939,799	369,485	-	2,309,284
Total investment return	2,259,402	430,362	-	2,689,764
Contributions	-	-	1,000,000	1,000,000
Endowment net assets, December 31, 2017	$ 15,463,224	$ 905,554	$ 3,081,558	$ 19,450,336

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

Note 7. Acquisition

On March 14, 2017, the Foundation acquired NSF – Hawaii. The Foundation transferred no consideration in exchange for NSF – Hawaii. The acquisition was achieved by, in effect, a gift of NSF – Hawaii to the Foundation. The fair value of NSF – Hawaii's assets, including donor-imposed restrictions, at the acquisition date included the following:

Cash	$	531,000
Liabilities		-
Temporarily restricted net assets	$	531,000

The results of operations of NSF – Hawaii is included in the consolidated statement of activities since the acquisition date.

Note 8. Subsequent Events

The Foundation entered into a lease, which commenced on February 12, 2018, for office space in San Diego, California. Under the terms of the lease, the Foundation will receive free rent and not be required to pay operating expenses until the first day of the 25th month after the commencement date. Simultaneous with the execution of this lease, the Foundation entered into a sublease with the Honor Foundation (THF), an unrelated 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 terms of the sublease, THF will sublease the entire premises from the Foundation. The Foundation will not charge the THF rent and will pay for a portion of the operating expenses when required on the first day of the 25th month after the commencement date.