

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2018

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RSM US LLP

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, 2018 and 2017, 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 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 its subsidiary as of December 31, 2018 and 2017, 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
September 4, 2019

Navy SEAL Foundation, Inc. and Subsidiary

**Consolidated Statements of Financial Position
December 31, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents	\$ 11,586,145	\$ 7,012,185
Contributions receivable	715,103	800,733
In-kind contributions receivable – real estate lease	1,670,490	-
Investments, at fair value	61,261,759	66,095,694
Subscription receivable	523,880	-
Other investments, at cost	611,028	611,028
Alternative investments redemption receivable	1,031,191	918,197
Property and equipment, net	4,388,105	4,022,929
Other assets	499,795	294,670
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Total assets	\$ 82,287,496	\$ 79,755,436
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 727,475	\$ 1,028,039
Unconditional promise to give – real estate lease	1,670,490	-
Refundable advances	1,060,865	-
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Total liabilities	3,458,830	1,028,039
Net assets:		
Without donor restrictions:		
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	14,559,254	15,463,224
Undesignated	43,496,340	43,897,061
	<hr/>	<hr/>
	73,435,594	74,740,285
With donor restrictions	5,393,072	3,987,112
	<hr/>	<hr/>
Total net assets	78,828,666	78,727,397
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Total liabilities and net assets	\$ 82,287,496	\$ 79,755,436

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and public support:			
Contributions	\$ 15,796,935	\$ 3,231,464	\$ 19,028,399
Special event revenue	12,134,600	-	12,134,600
Less cost of direct benefit to donors	(752,255)	-	(752,255)
Investment income, net	645,318	32,790	678,108
Other revenue	361,600	-	361,600
Net realized and unrealized loss on investments	(5,073,536)	(272,320)	(5,345,856)
Net assets released from restrictions	1,585,974	(1,585,974)	-
Total support and revenue	24,698,636	1,405,960	26,104,596
Expenses:			
Program services:			
Health and welfare	13,089,632	-	13,089,632
Education and motivation	7,104,596	-	7,104,596
History and heritage	34,970	-	34,970
Total program services	20,229,198	-	20,229,198
Supporting services:			
General administration	1,137,108	-	1,137,108
Fundraising	4,637,021	-	4,637,021
Total supporting services	5,774,129	-	5,774,129
Total expenses	26,003,327	-	26,003,327
Change in net assets	(1,304,691)	1,405,960	101,269
Net assets:			
Beginning	74,740,285	3,987,112	78,727,397
Ending	\$ 73,435,594	\$ 5,393,072	\$ 78,828,666

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and public support:			
Contributions	\$ 20,870,599	\$ 2,417,321	\$ 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	1,430,362	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	1,430,362	23,424,069
Net assets:			
Beginning	52,746,578	2,556,750	55,303,328
Ending	<u>\$ 74,740,285</u>	<u>\$ 3,987,112</u>	<u>\$ 78,727,397</u>

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services				Supporting Services			Total
	Health and Welfare	Education and Motivation	History and Heritage	Total Program Support	General Administration	Fundraising	Total Supporting Services	
Catering, venue and entertainment	\$ -	\$ -	\$ -	-	\$ -	\$ 3,978,007	\$ 3,978,007	\$ 3,978,007
Command support	1,180,091	-	-	1,180,091	-	-	-	1,180,091
Family support	1,320,641	-	-	1,320,641	-	-	-	1,320,641
Transition assistance	-	3,458,070	-	3,458,070	-	-	-	3,458,070
Wounded, death and resiliency support	3,154,438	-	-	3,154,438	-	-	-	3,154,438
Survivor support	2,346,324	19,159	-	2,365,483	-	-	-	2,365,483
Children support	2,573,771	-	-	2,573,771	-	-	-	2,573,771
Salaries and wages	734,161	401,131	1,846	1,137,138	495,181	635,900	1,131,081	2,268,219
Scholarships	-	1,828,065	-	1,828,065	-	-	-	1,828,065
Advertising	188,513	102,353	502	291,368	96,941	-	96,941	388,309
Building expenses	128,618	38,923	1,692	169,233	173,762	-	173,762	342,995
Travel expenses	164,553	89,344	438	254,335	84,619	-	84,619	338,954
Tuition assistance and test preparation	-	166,653	-	166,653	-	-	-	166,653
Professional fees	88,406	48,000	235	136,641	45,462	-	45,462	182,103
Postage	53,017	28,786	141	81,944	4,149	23,114	27,263	109,207
Veteran care	784,186	734,628	-	1,518,814	-	-	-	1,518,814
Legacy preservation	-	-	28,555	28,555	-	-	-	28,555
Dues and subscriptions	27,710	15,045	74	42,829	14,249	-	14,249	57,078
Supplies	103,184	56,025	275	159,484	53,062	-	53,062	212,546
Bank service charges	187,968	102,057	501	290,526	96,660	-	96,660	387,186
	13,035,581	7,088,239	34,259	20,158,079	1,064,085	4,637,021	5,701,106	25,859,185
Depreciation	54,051	16,357	711	71,119	73,023	-	73,023	144,142
	\$ 13,089,632	\$ 7,104,596	\$ 34,970	\$ 20,229,198	\$ 1,137,108	\$ 4,637,021	\$ 5,774,129	\$ 26,003,327

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
	<u>\$ 11,005,355</u>	<u>\$ 3,407,810</u>	<u>\$ 160,274</u>	<u>\$ 14,573,439</u>	<u>\$ 835,240</u>	<u>\$ 4,793,450</u>	<u>\$ 5,628,690</u>	<u>\$ 20,202,129</u>

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 101,269	\$ 23,424,069
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	144,142	130,570
Net realized and unrealized loss (gain) on investments	5,345,856	(6,200,421)
Contributions restricted for investment in endowment	-	(1,000,000)
In-kind contribution – real estate lease, net of discount	(2,032,090)	-
Rent and maintenance expense – in-kind real estate lease	361,600	-
Unconditional promise to give – real estate lease	2,032,090	-
Income from unconditional promise to give – real estate lease, net of discount	(361,600)	-
Interest and dividends restricted for long-term investment	(159,960)	(380,480)
Investments donated	(121,936)	(1,054,237)
Proceeds from sale of donated investments	121,240	1,180,480
Change in assets and liabilities:		
Contributions receivable	85,630	(540,258)
Other assets	(205,125)	101,718
Accounts payable and accrued expenses	(300,564)	246,698
Deposits held for others	1,060,865	-
Net cash provided by operating activities	6,071,417	15,908,139
Cash flow from investing activities:		
Proceeds from sale of investments	123,918,580	17,645,618
Purchases of investments	(125,066,679)	(31,591,568)
Purchases of property and equipment	(509,318)	-
Net cash used in investing activities	(1,657,417)	(13,945,950)
Cash flow from financing activities:		
Contributions restricted for investment in endowment	-	1,000,000
Interest and dividends restricted for reinvestment	159,960	380,480
Net cash provided by financing activities	159,960	1,380,480
Net increase in cash and cash equivalents	4,573,960	3,342,669
Cash and cash equivalents:		
Beginning	7,012,185	3,669,516
Ending	\$ 11,586,145	\$ 7,012,185

See notes to consolidated financial statements.

Navy SEAL Foundation, Inc. and Subsidiary

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 consolidated 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 net assets without donor restrictions and those net assets with donor restrictions.

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets with temporary donor-imposed restrictions 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

Cash and cash equivalents: The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. 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 and cash equivalents.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

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.

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. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation reports gifts of cash, stock, or other assets as revenues with donor restrictions 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, donor restricted net assets are reclassified to net assets without donor restriction 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 refundable advances in the accompanying consolidated statements of financial position.

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.

Market risk: Market risk primarily arises from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the value of investments purchased. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. Management of the Foundation seeks investment opportunities that maximize risk adjusted returns over the long-term horizon. As such, the Foundation may invest in a wide array of investments and strategies.

The Foundation invests in a professionally managed portfolio that consists of an alternative investment. The alternative investment is a limited partnership, which invests in exchange traded funds, hedge funds and private equity funds. The alternative investment is measured using the net asset value (NAV) as a practical expedient in accordance with ASC 820, Fair Value Measurements.

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, 2018 and 2017.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

Property and equipment, net: 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:

	<u>Years</u>
Buildings and improvements	27-40
Furniture and equipment	7
Vehicles	7

Valuation of long-lived assets: Long-lived assets 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.

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 2015.

Advertising: Advertising costs are expensed as incurred and totaled \$388,309 and \$315,074 for the years ended December 31, 2018 and 2017, respectively.

Recently adopted accounting pronouncement: On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no changes in total net assets previously reported.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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

Recently issued accounting pronouncements: In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. This update is effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the effect that the provisions of ASU 2018-08 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 FASB voted unanimously in July 2019 to delay the effective date one year, until January 1, 2021. However, before finalizing the new effective date, the FASB will issue a formal proposal for public comment with a thirty day comment period. 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 is currently evaluating the effect that the standard will have on the its consolidated financial statements.

Subsequent events: The Foundation evaluated subsequent events through September 4, 2019, the date the consolidated financial statements were available to be issued.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2018, the following financial assets are available to meet annual operating needs of the 2019 calendar year:

Cash and cash equivalents	\$ 11,586,145
Contributions receivable	715,103
	<u>\$ 12,301,248</u>

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and contributions receivable. Based on historical experience, only the portion of contributions receivable due within one year are considered available for use in meeting annual operating needs (liquid). The Foundation has established a cash reserve policy, the objectives of which, in order of priority are the following:

- Safety and preservation of principal by investing in a high quality, diversified portfolio of securities.
- Liquidity of investments that is sufficient to meet the Foundation's projected cash flow requirements

Note 3. Property and Equipment

Property and equipment consists of the following at December 31, 2018 and 2017:

	2018	2017
Buildings and improvements	\$ 5,299,129	\$ 4,789,811
Furniture and equipment	77,363	77,363
Vehicles	48,500	48,500
	<u>5,424,992</u>	<u>4,915,674</u>
Less accumulated depreciation	1,036,887	892,745
	<u>\$ 4,388,105</u>	<u>\$ 4,022,929</u>

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 \$144,142 and \$130,570 for the years ended December 31, 2018 and 2017, respectively.

Note 4. 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, 2018 and 2017, 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, 2018 and 2017.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5. In-kind Contributions Receivable and Unconditional Promise to Give – Real Estate Lease

During the year ended December 31, 2018, the Foundation received an in-kind contribution for office space and common area maintenance in San Diego, California. The donation was donor restricted for transition assistance programs and included the following:

- Lease term of 60 months, with a contribution of free rent for the 60-month term.
- Common area maintenance is free for a period of 2 years. The Foundation will commence payment for its share of common area maintenance beginning on the 25th month of the lease term.
- The Foundation recognized the fair value of the contribution based on a comparative market analysis.
- The contribution receivable recognized is net of a discount for the time value of money. The discount rate is computed using the risk-free rate on the date the contribution was received. The discount is accreted through income over the lease term.
- The contribution receivable is subsequently reduced by rent and maintenance expense, which is recognized on a straight-line basis over the lease term based on the contribution date fair value of the contribution.

The below table summarizes the contribution date fair value and activity during the year ended December 31, 2018:

Contribution date fair value	\$ 2,142,602
Discount for the time value of money (2.56%)	(132,731)
Accretion of discount	22,219
Rent and maintenance expense	(361,600)
	<u>\$ 1,670,490</u>

Concurrent with the contribution of the lease, the Foundation provided an unconditional promise to give the donated office space and common area maintenance to a third-party that provided transition assistance programs. The valuation and underlying terms of the unconditional promise to give are identical to the contribution and included the following:

- The Foundation has recognized an expense on the contribution date and related unconditional promise to give liability based on the 60-month lease term and contribution date fair value outlined in the table above.
- The unconditional promise to give liability is recorded net of a discount for the time value of money. The discount rate is computed using the risk-free rate on the date the contribution was made. The discount is accreted through expense over the lease term.
- The unconditional promise to give liability is subsequently reduced by recognition of other income, which is recognized on a straight-line basis over the lease term.

The below table summarizes the contribution date fair value and activity during the year ended December 31, 2018:

Contribution date fair value	\$ 2,142,602
Discount for time value of money (2.56%)	(132,731)
Accretion of discount	22,219
Other income	(361,600)
	<u>\$ 1,670,490</u>

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Investments

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ -	\$ -	\$ 576,285	\$ 576,285
Certificates of deposit	-	-	999,500	998,311
Exchange traded funds	-	-	34,423,454	40,067,271
Mutual funds	-	-	16,169,235	16,072,809
Corporate bonds	-	-	1,461,887	1,483,053
Government obligations	-	-	2,515,950	2,503,986
Alternative investment funds	65,282,492	61,261,759	3,325,000	4,393,979
	<u>\$ 65,282,492</u>	<u>\$ 61,261,759</u>	<u>\$ 59,471,311</u>	<u>\$ 66,095,694</u>

Investment income is recorded net of investment advisory and custodial fees. These investment advisory and custodial fees totaled \$239,611 and \$170,005 for the years ended December 31, 2018 and 2017, respectively. Effective April 1, 2018, the Foundation changed investment advisors and is now invested in a professionally managed fund structured as a limited partnership that allows for a well-diversified investment portfolio with the goal of generating attractive risk adjusted returns over a long-term horizon. Although the investments are defined as “alternative investment funds” due to the limited partnership structure, the underlying assets are diversified across multiple asset classes and types, including money market funds, domestic and global marketable equities, debt instruments, mutual funds and exchange traded funds in accordance with the Navy SEAL Foundation’s Investment Policy Statement.

Components of the net realized and unrealized gain on investments for the years ended December 31, 2018 and 2017, consist of the following:

	2018	2017
Net unrealized gain (loss)	\$ (10,645,116)	\$ 6,159,447
Net realized gain	5,299,260	40,974
	<u>\$ (5,345,856)</u>	<u>\$ 6,200,421</u>

Note 7. 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: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2: Valuation based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Fair Value Measurements (Continued)

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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: In accordance with FASB ASC 820-10, as amended by ASU 2015-07, *Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Assets Value per Share*, certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

As of December 31, 2018, included in cash and cash equivalents are money market funds valued at \$7,065,583, which are considered a Level 1 investment. The total fair value of investments as of December 31, 2018 is \$61,261,759 and invested in one alternative investment fund, which is measured using the net asset value.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Fair Value Measurements (Continued)

The following table represents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2017:

Description	Fair Value Measurements Using			Total
	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)	\$ 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
Real assets	-	-	-	-
Fixed income	10,178,009	-	-	10,178,009
Corporate bonds	-	1,483,053	-	1,483,053
Government obligations	-	2,503,986	-	2,503,986
	<u>\$ 56,716,365</u>	<u>\$ 3,987,039</u>	<u>\$ -</u>	<u>60,703,404</u>
Certificates of deposit (b)				998,311
Alternative investment funds - at net asset value (c)				<u>4,393,979</u>
				<u>\$ 66,095,694</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.
- (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 consolidated statements of financial position.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Fair Value Measurements (Continued)

The following information summarizes the nature and risk of the alternative investment at December 31, 2018:

- The investment objective is to maximize risk-adjusted returns over the long-term horizon and the fund may invest in a wide array of investments and strategies.
- Capital contributions may be accepted quarterly and in amounts to be determined at the discretion of the fund manager.
- Withdrawals may be made as of the last day of each calendar month, with a redemption notice period of 10 days.
- The fund invests directly in 5% exchange traded funds and 95% in a combination of hedge funds, private equity funds or other similar investment vehicles that, in-turn, invest in a number of financial instruments, such as money market funds, domestic and global marketable equities, debt instruments, mutual funds and exchange traded funds.
- The fund had unfunded commitments through its investments of \$6,689,522. Capital calls will be funded with available cash or by liquidating other investments, as needed.
- The fund is a limited partnership and located in the United States.

The following table provides additional information that describes the nature and risk of the alternative investments, whose fair value was based on net asset value, as of December 31, 2017:

Strategy Category	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy	\$ 61,261,759	Quarterly	60 days

This category included investment in three funds at December 31, 2017. Approximately 48% of the balance was invested in a fund that invests 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 achieve superior risk-adjusted returns by deploying capital in investments with a favorable risk/reward scenario across select asset classes, sectors and geographies. Investments consisted of multiple strategies, in both developed and emerging markets. Investments were made in all sectors, including equity, credit, commodity, currency, option and other instruments. The fund was located in the Cayman Islands.

Approximately 8% of the balance was invested 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 activity on behalf of the fund. The investment objective of the master fund was to achieve capital appreciation through trading fixed income products, options, future, and other financial instruments. Redemptions from this fund were limited to 25% of investment balance per quarter. The fund was located in the Cayman Islands.

Approximately 8% of the balance was invested 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 activity on behalf of the fund. The investment objective of the master fund was to achieve a position return on capital through multiple strategies, including investment in credit, credit structured products, over the counter, and exchange traded derivatives, equity securities, government securities and commodities. Redemption requests were subject to certain feed. The fund was located in the Cayman Islands.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017, are available for the following purposes, and net assets during the years ended December 31, 2018 and 2017, were released from restriction by incurring expenses satisfying the restricted purpose as follows:

	Balance December 31, 2017	Increases (Decreases)	Net Assets Released From Restriction	Balance December 31, 2018
Purpose Restricted				
Endowment	\$ 3,987,112	\$ (264,530)	\$ -	\$ 3,722,582
Funding of health and welfare programs	-	751,728	(751,728)	-
Funding of tragedy assistance and survivor support	-	279,306	(279,306)	-
Funding of education and motivation programs	-	193,340	(193,340)	-
Funding of transition assistance	-	2,032,090	(361,600)	1,670,490
	<u>\$ 3,987,112</u>	<u>\$ 2,991,934</u>	<u>\$ (1,585,974)</u>	<u>\$ 5,393,072</u>

	Balance December 31, 2016	Increases (Decreases)	Net Assets Released From Restriction	Balance December 31, 2017
Purpose Restricted				
Endowment	\$ 2,556,750	\$ 1,430,362	\$ -	\$ 3,987,112
Funding of health and welfare programs	-	444,478	(444,478)	-
Funding of legacy preservation	-	2,051	(2,051)	-
Funding of education and motivation programs	-	435,779	(435,779)	-
Funding of operations – Hawaii	-	535,013	(535,013)	-
	<u>\$ 2,556,750</u>	<u>\$ 2,847,683</u>	<u>\$ (1,417,321)</u>	<u>\$ 3,987,112</u>

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 net assets with donor restrictions: (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.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Net Assets with Donor Restrictions (Continued)

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

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

The endowment activity for the years ended December 31, 2018 and 2017, is shown in the following tables:

Description	Without donor restriction	With donor restriction	Total
Endowment net assets, January 1, 2017	\$ 13,203,822	\$ 2,556,750	\$ 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	3,987,112	19,450,336
Investment return:			
Investment income, net	127,170	32,790	159,960
Realized and unrealized gains	(1,056,140)	(272,320)	(1,328,460)
Total investment return	(928,970)	(239,530)	(1,168,500)
Appropriation of funds for expenditure	25,000	(25,000)	-
Endowment net assets, December 31, 2018	\$ 14,559,254	\$ 3,722,582	\$ 18,281,836

Net assets without donor restricted only consist of board-designated endowment funds.

Navy SEAL Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. 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	-
With donor restrictions	<u>\$ 531,000</u>

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