



**UNITED STATES NAVY MEMORIAL
FOUNDATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

*As of and for the Years Ended December 31, 2015
and 2014*

And Report of Independent Auditor

UNITED STATES NAVY MEMORIAL FOUNDATION
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Report of Independent Auditor

The Board of Directors
United States Navy Memorial Foundation
Washington, D.C.

We have audited the accompanying financial statements of the United States Navy Memorial Foundation which comprise the statement of financial position as of December 31, 2015 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the 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 audit. We conducted our audit 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 over financial reporting. 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 the United States Navy Memorial Foundation as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the United States Navy Memorial Foundation for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on November 9, 2015.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Cheryl Beckett LLP".

Bethesda, Maryland
August 5, 2016

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 793,769	\$ 492,458
Investments	1,052,541	1,237,380
Accounts receivable, net	115,475	70,033
Promises to give	452,084	871,451
Prepaid expenses	177,702	161,431
Inventory	123,835	100,151
Property and equipment, net	720,140	828,989
Trademark, net	10,911	11,704
Total Assets	<u>\$ 3,446,457</u>	<u>\$ 3,773,597</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 246,565	\$ 279,719
Line of credit	291,400	495,741
Annuities payable	328,751	291,480
Deferred revenue	164,620	107,644
Deferred rent	164,310	-
Total Liabilities	<u>1,195,646</u>	<u>1,174,584</u>
Net assets:		
Unrestricted net (deficit) assets	(140,199)	143,282
Temporarily restricted net assets	2,200,175	2,264,896
Permanently restricted net assets	190,835	190,835
Total Net Assets	<u>2,250,811</u>	<u>2,599,013</u>
Total Liabilities and Net Assets	<u>\$ 3,446,457</u>	<u>\$ 3,773,597</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Change in unrestricted net assets		
Revenue:		
Direct mail contributions	\$ 2,644,549	\$ 2,816,612
Special projects and events	1,255,667	881,687
Private gifts and grants	357,360	1,109,901
Navy ceremony	304,730	221,347
Heritage Center	288,829	292,954
Affinity program	111,838	110,984
Auxiliary activity - Store sales	169,671	138,929
Other income	110,123	147,875
Investment (loss) earnings	(27,650)	66,740
	<u>5,215,117</u>	<u>5,787,029</u>
Net assets released from restrictions	<u>154,258</u>	<u>192,086</u>
	<u>5,369,375</u>	<u>5,979,115</u>
Expenses:		
Program services:		
Navy heritage services	1,618,788	1,830,186
Special events	586,817	705,191
Educational services	307,022	330,640
Expenses of auxiliary enterprises	288,884	315,011
Memorial log	61,597	79,604
Total program services	<u>2,863,108</u>	<u>3,260,632</u>
Supporting services:		
Fundraising	1,983,804	2,087,462
General and administrative	805,944	663,283
Total supporting services	<u>2,789,748</u>	<u>2,750,745</u>
Total expenses	<u>5,652,856</u>	<u>6,011,377</u>
Change in unrestricted net assets	<u>(283,481)</u>	<u>(32,262)</u>
Change in temporarily restricted net assets		
Contributions	89,537	393,020
Net assets released from restrictions	(154,258)	(192,086)
Change in temporarily restricted net assets	<u>(64,721)</u>	<u>200,934</u>
Net change in net assets	(348,202)	168,672
Net assets, beginning of year	<u>2,599,013</u>	<u>2,430,341</u>
Net assets, end of year	<u>\$ 2,250,811</u>	<u>\$ 2,599,013</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net change in net assets	\$ (348,202)	\$ 168,672
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	210,979	458,991
Deferred rent	164,310	-
Annuity obligations	(94,981)	(58,862)
Change in fair value of investments	27,650	(66,740)
Changes in operating assets and liabilities:		
Accounts receivable	(45,442)	(33,820)
Promises to give	419,367	252,988
Inventory	(23,684)	(39,484)
Prepaid expenses	(16,271)	202
Accounts payable and accrued expenses	(33,154)	(620,771)
Deferred revenue	56,976	(21,423)
Net cash flows provided by operating activities	<u>317,548</u>	<u>39,753</u>
Cash flows from investing activities:		
Proceeds from sales of investments	443,323	75,300
Purchases of investments	(286,134)	(294,887)
Proceeds from disposal of fixed assets	-	260
Purchases of fixed assets	(101,337)	(154,041)
Net cash flows provided by (used in) investing activities	<u>55,852</u>	<u>(373,368)</u>
Cash flows from financing activities:		
Receipt of charitable gift annuities	215,000	105,000
Proceeds drawn from line of credit	291,400	913,241
Repayments on line of credit	(495,741)	(417,500)
Payments of annuity obligations	(82,748)	(126,222)
Net cash flows (used in) provided by financing activities	<u>(72,089)</u>	<u>474,519</u>
Net change in cash and cash equivalents	301,311	140,904
Cash and cash equivalents, beginning of year	<u>492,458</u>	<u>351,554</u>
Cash and cash equivalents, end of year	<u>\$ 793,769</u>	<u>\$ 492,458</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 30,259</u>	<u>\$ 6,024</u>
Interest paid	<u>\$ 9,940</u>	<u>\$ 7,479</u>

The accompanying notes to the financial statements are an integral part of these statements.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies

Organization – The United States Navy Memorial Foundation (the “Foundation”) is a nonprofit organization dedicated to the education of the general public regarding the maritime heritage of the United States and the contribution of the United States Navy personnel to that maritime heritage. The Foundation constructed a national monument, including the statue of The Lone Sailor, in Washington, D.C., in honor and in memory of all United States Sea Services personnel. The Foundation has completed a Heritage Center adjacent to the Memorial. Among the Heritage Center attractions are a Log Room, Ship’s Store, Theater, and Presidents Room. The Foundation occupies office space adjacent to the Heritage Center.

Basis of Accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (the “Guidance”). Accordingly, revenue is recognized when earned and expenses when an obligation is incurred.

Use of Estimates – The accompanying financial statement have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. Management has concluded that the Foundation has maintained its tax exempt status and that there are no significant uncertain tax positions as of December 31, 2015.

Cash and Cash Equivalents – The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. The Foundation may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents.

Investments and Fair Value Measurements – Investments are recorded at fair value, with gains and losses (realized and unrealized) included in the statements of activities. The gains or losses on sales of investments are determined using the cost of the specifically identified security.

In accordance with GAAP, the Foundation prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The levels of the hierarchy are as follows:

Level 1 – Inputs in the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, for substantially the entire period, for the assets or liabilities and market-corroborated inputs.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Foundation recognizes transfers between levels at the end of the reporting period in which circumstances occur causing changes in the availability of inputs to the fair value technique.

Risks and Uncertainties – The Foundation invests in various investment securities. Investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Accounts Receivable – Accounts receivable consist primarily of amounts due from special program projects and events, the Navy ceremony, sales and services of auxiliary enterprises and the Heritage Center activities. Accounts receivable are stated at their net realizable value. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed the receivable is written off against the allowance. The allowance recorded as of December 31, 2015 and 2014 was \$6,329 for both years.

Promises to Give – Unconditional promises to give are recorded as contributions in the period the promise is made. Promises to give that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Promises to give expected to be collected beyond one year are reported net of any estimated uncollectible amounts and are discounted to present value using a risk adjusted rate according to their corresponding terms. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the allowance for doubtful accounts. There was no allowance recorded as of December 31, 2015 and 2014. Management believes that all promises to give are collectible based on their assessment at this time.

Inventory – Inventory held by the Foundation consists of statues and books. Inventory is stated, at the lower of cost or market, net of an allowance for obsolete inventory of \$654 and \$14,268 for the years ended December 31, 2015 and 2014, respectively.

Property and Equipment – Property, furniture, equipment and leasehold improvements are recorded at cost, or if donated, such assets are capitalized at the estimated fair market value at the date of receipt, less accumulated depreciation. It is the Foundation's policy to capitalize fixed assets with an original cost greater than \$500. Depreciation expense is computed using the straight-line method over the estimated life of three to fifteen years. Leasehold improvements are amortized over the lesser of the remaining office lease term or the estimated useful life of the improvements. Related amortization of leasehold improvements has been included with depreciation expense. Expenditures for maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, with any gain or loss included in operations. Also included with property and equipment are collections held by the Foundation.

Collections – The Foundation has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession date. The collections are reported on the statements of financial position within property and equipment and related gains and losses on the deaccession of collection items are classified on the statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the items at the time of accession.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Trademarks – The Foundation’s trademarks are amortized on a straight-line basis over forty years. Amortization expense for the years ended December 31, 2015 and 2014 was \$793 each year and has been included with depreciation expense.

The Foundation presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted Net Assets – Unrestricted net assets are available for use in general operations.

Temporarily Restricted Net Assets – The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets whose restrictions expire in the same year of receipt are classified as unrestricted revenues in the statements of activities.

Permanently Restricted Net Assets – Permanently restricted net assets consist of assets whose use by the Foundation is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. The restrictions stipulate that resources be maintained permanently, but permit the Foundation to expend the income generated in accordance with the provisions of the agreement.

Revenue Recognition – Memorial contributions, private gifts and grants, are recognized in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are not included as contribution revenue until the conditions are substantially met.

Charitable gift annuity contributions are recorded net of the present value of the liability of the future annuity payments and included in other income. The rate used to calculate the net present value is the adjusted discount rate for the month in which the gift is made. The value of the liability is adjusted to reflect amortization of the discount, payments to the donor, and changes in actuarial assumptions.

Special projects and events, the Navy ceremony and Heritage Center revenues represent sponsorships and events which are recognized in the period the event or program is held. Amounts received in advance of the related event are deferred until the event takes place.

Funds received for the Affinity program are recognized over the life of the program. Amounts received in advance are deferred until earned.

Functional Allocation of Expenses – The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Joint Cost Allocation – In 2015 and 2014, the Foundation incurred joint costs of \$1,095,052 and \$1,050,856, respectively, for informational materials and activities that are included fundraising appeals. Of those costs, \$1,056,954 and \$1,024,630, respectively, were allocated to fundraising expense, \$6,376 and \$3,530, respectively, were allocated to management and general, and \$31,722 and \$22,696, respectively, to program services.

Subsequent Events – The Foundation has performed an evaluation of subsequent events through August 5, 2016, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

Note 2—Description of program services and supporting services

The following program and supporting services are included in the accompanying statements of activities.

Naval Heritage Services – Naval heritage services honors, preserves and celebrates America's enduring maritime heritage through commemorative ceremonies, reunion meetings, reenlistment and retirement ceremonies, film and video presentations, band concerts, photographic and data collections, special events and exhibits.

Special Events – These events promote awareness of the Foundation and its purpose to the general public through ceremonies, exchange programs, seminars, and lectures.

Educational Services – Educational services educates the public about the heritage of the United States as a maritime nation and the contributions of men and women in the naval services through exhibits, film and video presentations, lectures, tours, publications, and events.

Expenses of Auxiliary Enterprises – Sales of memorabilia to further educate the public regarding the role of the Navy and the contributions of those who have served the United States in the Navy, Marine Corps, Coast Guard or Merchant Marine.

Memorial Log – The Memorial Log honors the service of men and women who have served in the United States Navy, Marine Corps, Coast Guard or Merchant Marine through the maintenance of a permanent register recording service information and service members' photographs.

Fundraising – Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, other assets, or time. They include publicizing and conducting fundraising campaigns; maintaining donor mailing lists; and conducting fundraising events.

General and Administrative – General and administrative activities are those that are not identified with a single program but that are indispensable to the conduct of the Foundation's operations and programs. They include oversight, business management, record keeping, budgeting, and finance.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 3—Investments and fair value measurements

The Foundation's investments as of December 31, 2015 and 2014, consisted of the following, which were deemed to be Level 1 securities within the GAAP fair value hierarchy:

<u>Class of Security</u>	<u>2015</u>	<u>2014</u>
Equity securities	\$ 41,593	\$ 49,350
Mutual funds		
Large growth	108,889	120,480
Large value	56,557	70,946
Large blend	193,795	321,368
Medium blend	47,051	49,732
Medium growth	15,208	25,184
Small blend	23,797	24,371
Long term bond	64,188	78,214
Intermediate term bond	246,658	254,964
Diversified emerging market	-	15,388
Inflation protected bond	115,884	94,739
Other	64,870	48,930
Total mutual funds	<u>936,897</u>	<u>1,104,316</u>
Total investments	978,490	1,153,666
Cash and cash equivalents held within investment accounts	<u>74,051</u>	<u>83,714</u>
Total	<u>\$ 1,052,541</u>	<u>\$ 1,237,380</u>

There were no transfers between levels of the fair value hierarchy in 2015 or 2014.

The Foundation's total (losses) earnings on investments for the years ended December 31, 2015 and 2014 is comprised of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 38,045	\$ 62,480
Realized (losses) gains	(4,157)	8,983
Unrealized losses	<u>(61,538)</u>	<u>(4,723)</u>
Total investment (losses) earnings	<u>\$ (27,650)</u>	<u>\$ 66,740</u>

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 4—Promises to give

Promises to give consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 261,120	\$ 360,331
One to five years	190,964	511,120
Total promises to give	<u>\$ 452,084</u>	<u>\$ 871,451</u>

Note 5—Property and equipment

Property and equipment of the Foundation consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 6,145,497	\$ 6,086,705
Equipment	2,406,170	2,367,054
Furniture and fixtures	1,792,049	1,788,620
Website	200,450	200,450
Total fixed assets	10,544,166	10,442,829
Less accumulated depreciation and amortization	<u>(9,824,026)</u>	<u>(9,613,840)</u>
	<u>\$ 720,140</u>	<u>\$ 828,989</u>

Furniture and fixtures includes non-depreciable collection items in the amount of \$68,075 for both the years ended December 31, 2015 and 2014.

Note 6—Charitable gift annuities

As of December 31, 2015 and 2014, the Foundation had received cumulative total cash contributions of \$1,593,273 and \$1,378,273, respectively, in the form of charitable gift annuities. The liability under the agreements is recorded at the net present value of the estimated income owed to the donors based upon the donors' life expectancy. The discount is computed using the risk-adjusted rates, ranging from 1.0% to 8.0%. The agreements stipulate that the donors are to receive periodic payments for the remainder of their lives. Any income not distributed will revert to the Foundation at the termination of the agreements. These annuities are classified as Level 3 liabilities within the GAAP fair value hierarchy as their fair values are derived from inputs to the valuation methodology that are unobservable for the asset and are based on actuarial assumptions such as mortality rates and the applicable federal rate for charitable gifts. These assumptions are significant to the fair value measurement.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 6—Charitable gift annuities (continued)

Anticipated maturities of the obligations under the agreement are as follows:

2016	\$	72,013
2017		59,983
2018		43,170
2019		31,666
2020		21,211
Thereafter		<u>100,708</u>
Total	<u>\$</u>	<u>328,751</u>

A reconciliation of charitable gift annuities measured at fair value with the use of significant unobservable inputs (Level 3) for the years ending December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ 291,480	\$ 371,564
Charitable gift annuities received	215,000	105,000
Discount, net of interest	(94,981)	(58,862)
Disbursements and maturities	<u>(82,748)</u>	<u>(126,222)</u>
Balance at December 31	<u>\$ 328,751</u>	<u>\$ 291,480</u>

Note 7—Line of credit

The Foundation entered into a line of credit agreement on October 30, 2007. Any outstanding principal is due on demand and is secured by the Foundation's short-term investments. The maximum available credit is determined by the financial institution from time to time based on the value of the securities pledged as collateral. There was no available credit as of December 31, 2015 (\$101,574 as of December 31, 2014). Interest was calculated as 1.875% plus 30-day LIBOR and the interest rate was 2.12% and 2.05% at December 31, 2015 and 2014, respectively. There was no outstanding balance on the line of credit as of December 31, 2015 and 2014, and no amounts were drawn upon for the years then ended. Accordingly, there was no interest expense for 2015 or 2014.

On December 17, 2013, the Foundation entered into a new line of credit agreement with another financial institution. The maximum credit allowed is \$1,000,000 and the interest rate is calculated as 30-day LIBOR plus 2.5%, and is renewable in January 2017. The interest rate was 2.94% and 2.67% at December 31, 2015 and 2014, respectively. The outstanding balance on the line of credit was \$291,400 and \$495,741 as of December 31, 2015 and 2014, respectively. The interest expense for this credit agreement was \$1,790 and \$1,183 for the years ended December 31, 2015 and 2014, respectively.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 8—Temporarily and permanently restricted net assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 consist of the following:

	<u>2015</u>	<u>2014</u>
Purpose restrictions:		
Capital campaign pledges	\$ 1,807,235	\$ 1,847,087
Back area build out	171,016	171,016
Youth programs	147,551	153,784
City of Orlando, Florida	15,000	90,000
Galan Freise Scholarship	59,373	-
Other	-	3,009
	<u> </u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 2,200,175</u>	<u>\$ 2,264,896</u>

Permanently Restricted Net Assets

The Foundation's endowment funds were established for the purpose of securing the Foundation's long-term financial viability and continuing to meet the needs of the Foundation, which consisted of three funds as of December 31, 2015 and 2014 as follows:

V-12 program – The V-12 Navy College Training Program was initiated in 1943 to meet both the immediate and long-range needs for commissioned officers to man ships, fly planes and command troops called to duty in World War II.

Zumwalt lecture series – The Zumwalt lecture series was established to provide funding for a series of Naval leadership lectures.

Outreach programs – Support was provided to the Foundation to assist with educating and providing outreach to the youth and general public.

Interpretation of relevant law

As required by GAAP, net assets associated with these funds are classified and reported based on the existence or absence of donor imposed restrictions. The amounts classified as permanently restricted net assets represent the Foundation's endowment. The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies all permanently restricted net assets as the original value of gifts donated to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

UNITED STATES NAVY MEMORIAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 8—Temporarily and permanently restricted net assets (continued)

Investment Policy

The Foundation commingled permanently restricted assets in investments portfolios with unrestricted assets. The Foundation allocated realized and unrealized gains and losses to the endowment funds based on the endowment funds cost basis percentage of the investment portfolio and revenue earned is reported as temporarily restricted. Management decides, based on what the assets were permanently restricted for, the disposition of the temporarily restricted revenue in accordance with the donors' stipulations. The Foundation's endowment policy is focused on the preservation of capital and amounts are invested in 50% equities and 50% fixed income securities.

Spending Policy – The Foundation is developing a policy of appropriating for distribution a certain percentage of its endowment fund's average fair value over time. In establishing this policy, the Foundation will consider the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow over time, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are required to be reported in unrestricted net assets. Deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. As of December 31, 2015 and 2014, there were no funds with deficiencies.

Permanently restricted net assets consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
V-12 program	\$ 153,448	\$ 153,448
Zumwalt lecture series	28,922	28,922
Communications / outreach	8,465	8,465
Total endowment	<u>\$ 190,835</u>	<u>\$ 190,835</u>

The endowment activity for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, December 31, 2013	\$ 1,884	\$ 190,835	\$ 192,719
Investment income	-	-	-
Appropriation for expenditure	-	-	-
Net assets, December 31, 2014	<u>1,884</u>	<u>190,835</u>	<u>192,719</u>
Investment income	-	-	-
Appropriation for expenditure	-	-	-
Net assets, December 31, 2015	<u>\$ 1,884</u>	<u>\$ 190,835</u>	<u>\$ 192,719</u>

UNITED STATES NAVY MEMORIAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 9—Related party transactions

The Foundation received significant contributions from certain board members in support of various programs and operations. Related party contributions were approximately \$32,500 and \$11,700 for the years ended December 31, 2015 and 2014, respectively. Related party receivable balances amounted to \$5,000 for the years ended December 31, 2015 and 2014, and are included in contributions receivable on the statements of financial position.

During 2015, the Foundation provided CEO, CFO and other management services to the Association of the U.S. Navy (AUSN) and billed for reimbursement of related compensation in rendering such services totaling approximately \$106,762 for the year ended December 31, 2015 (\$152,000 for the year ended December 31, 2014).

Note 10—Employee retirement plan

The Foundation maintains an employee contribution retirement plan which operates under Internal Revenue Code Section 403(b). All employees are eligible to participate at the date of employment. For the years ended December 31, 2015 and 2014, there were no amounts contributed by the Foundation.

Note 11—Commitments

Operating lease

In 2009, the Foundation renegotiated their lease for the Heritage Center and office space under an operating lease. The renegotiated terms commenced on July 1, 2015 and expire with the termination of the lease in June 2025. The lease provides for base annual rental payments adjusted for annual increases of 1% on a compound and cumulative basis. Rental expense (including real estate taxes of \$303,776) totaled \$924,879 and \$863,378 for the years ended December 31, 2015 and 2014, respectively.

Future commitments under this lease are as follows:

2016	\$	609,933
2017		615,660
2018		619,414
2019		595,047
2020		595,876
Thereafter		<u>2,755,270</u>
Total	\$	<u><u>5,791,200</u></u>

SUPPLEMENTAL INFORMATION

UNITED STATES NAVY MEMORIAL FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Navy Heritage Services	Special Events	Educational Services	Expenses of the Auxiliary Enterprises	Memorial Log	Total Program Services	Fundraising	General and Administrative	Total
Personnel costs	\$ 394,926	\$ 123,248	\$ 202,484	\$ 46,652	\$ 5,949	\$ 773,259	\$ 187,350	\$ 472,763	\$ 1,433,372
Occupancy costs	803,695	6,244	12,276	121,494	10,266	953,975	14,287	95,248	1,063,510
Consulting fees	2,000	78,000	-	608	5,292	85,900	287,790	20,288	393,978
Depreciation expense	138,615	-	7,000	1,690	34,462	181,767	20,440	7,979	210,186
Printing	336	12,462	-	1,727	-	14,525	403,126	4,432	422,083
Postage	295	2,683	422	12,492	268	16,160	361,286	1,944	379,390
Mail shop	-	-	-	1,037	-	1,037	292,542	-	293,579
Database/website maintenance and hosting	20,158	1,000	-	-	-	21,158	82,344	-	103,502
Décor/staging/production	-	118,210	-	-	-	118,210	-	-	118,210
Caging	-	-	-	-	-	-	97,354	-	97,354
Building maintenance, equipment rental	45,683	395	1,297	854	640	48,869	30,424	7,018	86,311
Communications costs	24,283	7,978	12,414	2,860	3,072	50,607	11,519	27,408	89,534
List rental expense	-	-	-	-	-	-	60,456	-	60,456
Food/beverage/venue/flowers	3,033	89,525	-	-	-	92,558	360	-	92,918
Catering	25,950	7,971	28	-	-	33,949	-	808	34,757
Exhibits	-	-	69,189	-	-	69,189	-	-	69,189
Legal/other professional fees and services	12,461	2,789	-	3,883	-	19,133	44,237	59,006	122,376
Costs of goods sold	-	-	-	85,473	-	85,473	-	-	85,473
Supplies	28,262	2,728	1,109	1,799	126	34,024	3,442	9,516	46,982
Bank and credit card charges	-	429	-	-	-	429	3,731	59,545	63,705
Video production	5,890	20,000	-	-	-	25,890	-	-	25,890
Custodial service	57,596	-	-	-	-	57,596	-	-	57,596
Silent auction	-	15,644	-	-	-	15,644	-	-	15,644
Public relations	-	-	-	-	-	-	-	18,057	18,057
Promotional items	1,100	22,558	-	7,815	-	31,473	31,069	-	62,542
Venue rental	-	33,500	-	-	-	33,500	-	-	33,500
YOMW and YOC merchandise	-	-	-	-	-	-	16,102	-	16,102
Travel and transportation expense	1,711	6,829	185	-	1,522	10,247	851	1,582	12,680
CGA interest and payments	-	-	-	-	-	-	28,230	-	28,230
Advertising/marketing/promotion - other	8,074	-	-	500	-	8,574	5,742	9,609	23,925
LSAD and golf invitations and promotional	-	13,245	-	-	-	13,245	-	-	13,245
Plaque expense	-	21,280	-	-	-	21,280	-	-	21,280
Design/photography	6,387	-	-	-	-	6,387	-	-	6,387
Google grant	4,680	-	-	-	-	4,680	-	-	4,680
Taxes	30,259	-	-	-	-	30,259	-	-	30,259
Miscellaneous	3,394	99	618	-	-	4,111	1,122	10,741	15,974
	<u>\$ 1,618,788</u>	<u>\$ 586,817</u>	<u>\$ 307,022</u>	<u>\$ 288,884</u>	<u>\$ 61,597</u>	<u>\$ 2,863,108</u>	<u>\$ 1,983,804</u>	<u>\$ 805,944</u>	<u>\$ 5,652,856</u>