

Navy League of the United States and Affiliates

Consolidated Financial Report
December 31, 2014

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Independent Auditor's Report

To the Board of Directors
Navy League of the United States
Arlington, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Navy League of the United States and Affiliates (the League) which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the League as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the League, as of and for the year ended December 31, 2013, were audited by other auditors whose report dated November 10, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed name and date.

McLean, Virginia
September 18, 2015

Navy League of the United States and Affiliates

Consolidated Statement of Financial Position

December 31, 2014

(With Comparable Totals for 2013)

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,066,833	\$ 3,976,299
Receivables, net	2,095,616	962,196
Prepaid expenses	510,715	359,811
Promises to give, current portion	62,337	146,658
Total current assets	4,735,501	5,444,964
Non-Current Assets		
Investments	8,424,016	9,794,950
Cash surrender value of life insurance policy	132,162	128,594
Painting	42,000	42,000
Promises to give, non-current portion	-	92,292
Escrows – taxes, insurance and tenant improvements	1,064,764	975,127
Deferred rent receivable	2,319,384	1,895,111
Leasing commissions and loan costs, net of amortization	1,455,260	1,628,391
Property and equipment, net	36,301,556	36,463,136
Total non-current assets	49,739,142	51,019,601
Total assets	\$ 54,474,643	\$ 56,464,565
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,912,287	\$ 1,629,767
Capital lease obligations, current portion	24,986	46,037
Accrued interest payable	196,830	201,219
Line of credit, current portion	3,198,019	3,198,019
Notes payable, current portion	964,089	911,048
Deferred revenue, current portion	3,207,861	2,836,842
Total current liabilities	9,504,072	8,822,932
Non-Current Liabilities		
Notes payable, non-current portion	46,889,568	47,853,656
Capital lease obligations, non-current portion	3,569	25,974
Deferred revenue, non-current portion	216,159	540,647
Prepaid assessments	183,032	183,032
Total non-current liabilities	47,292,328	48,603,309
Total liabilities	56,796,400	57,426,241
Commitments and Contingencies (Notes 6, 11 and 13)		
Net Assets (Deficit)		
Unrestricted	(2,806,382)	(1,620,054)
Temporarily restricted	280,896	454,649
Permanently restricted	203,729	203,729
Total net assets (deficit)	(2,321,757)	(961,676)
Total liabilities and net assets (deficit)	\$ 54,474,643	\$ 56,464,565

See Notes to Consolidated Financial Statements.

Navy League of the United States and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and Support					
Rental income	\$ 5,344,718	\$ -	\$ -	\$ 5,344,718	\$ 5,847,262
Sea-Air-Space Exposition	3,786,174	-	-	3,786,174	3,757,168
Membership dues	1,684,026	-	-	1,684,026	1,631,846
Contributions	1,917,879	80,143	-	1,998,022	976,919
Assessment income	94,713	-	-	94,713	116,736
Expense recoveries from tenants and parking contract	1,280,813	-	-	1,280,813	1,292,243
Publications	1,018,678	-	-	1,018,678	1,304,213
Royalty and other income	479,118	-	-	479,118	467,004
Net assets released from restrictions	259,542	(259,542)	-	-	-
Total revenue and support	15,865,661	(179,399)	-	15,686,262	15,393,391
Expenses					
Program services:					
Sea-Air-Space exposition	2,879,127	-	-	2,879,127	2,662,914
Seapower	1,062,714	-	-	1,062,714	1,744,036
Support programs	630,391	-	-	630,391	976,594
Navy ball	351,246	-	-	351,246	306,828
Volunteer training	211,409	-	-	211,409	141,236
Legislative affairs	186,520	-	-	186,520	219,272
President support	203,563	-	-	203,563	214,792
Public affairs	172,705	-	-	172,705	234,677
International exposition	84,730	-	-	84,730	142,878
Stem	15,281	-	-	15,281	30,133
Total program services	5,797,686	-	-	5,797,686	6,673,360
Support services:					
Building operations	7,992,151	-	-	7,992,151	7,848,289
Management and general	1,284,781	-	-	1,284,781	1,230,932
Membership recruitment	1,251,745	-	-	1,251,745	947,371
President support	659,412	-	-	659,412	719,714
Fundraising	407,901	-	-	407,901	610,198
Total support services	11,595,990	-	-	11,595,990	11,356,504
Total expenses	17,393,676	-	-	17,393,676	18,029,864
Change in net assets before other changes	(1,528,015)	(179,399)	-	(1,707,414)	(2,636,473)
Other Changes					
Realized/unrealized gain on investments	167,793	-	-	167,793	1,971,942
Interest and dividends	170,326	5,646	-	175,972	150,617
Unrealized gain on cash surrender value of life insurance policy	3,568	-	-	3,568	4,345
Change in net assets (deficit)	(1,186,328)	(173,753)	-	(1,360,081)	(509,569)
Net Assets (Deficit)					
Beginning	(1,620,054)	454,649	203,729	(961,676)	(452,107)
Ending	\$ (2,806,382)	\$ 280,896	\$ 203,729	\$ (2,321,757)	\$ (961,676)

See Notes to Consolidated Financial Statements.

Navy League of the United States and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2014
(With Comparable Totals for 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets (deficit)	\$ (1,360,081)	\$ (509,569)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:		
Realized and unrealized gain on investments	(167,793)	(1,971,942)
Unrealized gain on cash surrender value of life insurance policy	(3,568)	(4,345)
Depreciation and amortization, property and equipment	2,297,603	2,047,777
Depreciation and amortization, lease commissions and loan costs	712,609	447,172
Deferred rent receivable	(424,273)	170,529
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(1,133,420)	(163,456)
Promises to give	176,613	(6,279)
Prepaid expenses	(150,904)	115,689
Escrows – taxes, insurance and tenant improvements	(89,637)	(190,765)
Increase (decrease) in:		
Accounts payable and accrued expenses	(141,904)	(47,000)
Accrued interest payable	(4,389)	(4,148)
Deferred revenue	46,531	(50,923)
Net cash used in operating activities	(242,613)	(167,260)
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,711,599)	(114,168)
Purchase of investments	(2,344,168)	(2,357,608)
Proceeds from sales/maturities of investments	3,882,895	3,823,295
Payments of leasing commissions	(539,478)	(426,126)
Net cash provided by (used in) investing activities	(712,350)	925,393
Cash Flows From Financing Activities		
Principal payments on note payable and line of credit	(911,047)	(5,662,902)
Advances drawn on note payable and line of credit	-	5,400,000
Principal payments on capital lease obligations	(43,456)	(45,707)
Net cash used in financing activities	(954,503)	(308,609)
Net increase (decrease) in cash and cash equivalents	(1,909,466)	449,524
Cash and Cash Equivalents		
Beginning	3,976,299	3,526,775
Ending	\$ 2,066,833	\$ 3,976,299
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 2,988,977	\$ 3,039,958
Supplemental Schedule of Noncash Investing and Financing Activities		
Tenant improvements included in accounts payable	\$ 424,424	\$ -

See Notes to Consolidated Financial Statements.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Navy League of the United States (the Navy League) is an educational organization whose primary objective is to be a source of information to the general public, Congress, defense and other homeland security related organizations concerning the importance of sea power to the nation's national and economic security. The Navy League also provides, through its council network, direct assistance to the men and women of the sea services. Additionally, it sponsors a number of scholarships, public recognition and youth programs which are geared towards support of the sea services. The Navy League's councils are separate, independent organizations around the world that help enhance the Navy League's mission. Finally, the Navy League serves as an advocate for the sea services in various public forums.

The Navy League Building LLC (the LLC) is a limited liability company organized in the state of Delaware. The LLC's primary purpose is to own, operate, lease, sell, manage and/or develop commercial real estate. The Navy League is the sole member of the LLC.

The Navy League Development Corporation (NLDC) is a company organized in the state of Virginia. NLDC's primary business purpose is to own, operate, lease and manage parking facilities. The LLC is the sole owner of NLDC.

The Navy League Building Condominium Unit Owners Association (the Association) is an unincorporated association organized in the state of Virginia. The Association's primary business is to operate and manage the Navy League Building. The Association is 96% owned by the LLC and NLDC.

A summary of the Navy League's significant accounting policies follows:

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting, whereby support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Navy League, the LLC, NLDC and the Association (collectively the League). All significant intercompany transactions have been eliminated in the consolidation.

Basis of presentation: The League reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and cash equivalents: For the purpose of reporting cash flows, the League considers all highly-liquid investment instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash in checking accounts and money market funds. Money market funds held as a part of the investment portfolio are included with the investments.

Financial risk: The League maintains their cash in bank deposit accounts, which at times, may exceed federally insured limits. The League has not experienced any losses in such accounts. The League believes it is not exposed to any significant credit risk on cash.

The League invests in a professionally managed portfolio that contains mutual funds, exchange-traded funds, money market funds and equity securities. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances reported in the consolidated financial statements.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

Investments: Investments with readily determinable fair values are reflected at fair market value (based on closing values at 4:00 p.m. Eastern time on the last trading day of the fiscal year). To adjust the carrying value of the investments, unrealized gains and losses are reported in the consolidated statement of activities as other changes below the line.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts, based on management's evaluation of the collectability of receivables, was \$12,000 at December 31, 2014. Receivables include a bequest of \$1,384,440 which is expected to be distributed in 2015.

Promises to give: Unconditional promises to give are recorded as receivables and support when received.

Deferred rent receivable: Rental income is reported on a straight-line basis over the lease term, which gives rise to a deferred rent receivable.

Property and equipment: The League capitalizes all property and equipment purchased with a cost of \$500 or more. Property and equipment are stated at cost. Depreciation on property and equipment is calculated on a straight-line basis and declining balance methods over the estimated useful lives of the assets.

Valuation of long-lived assets: The League reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. Management concluded there were no impairments for the year ended December 31, 2014.

Capitalized lease commissions and loan costs: The costs associated with obtaining leases for the building have been capitalized and amortized over the lives of the applicable leases using the straight-line method. In addition, closing costs associated with the building loan have been capitalized and amortized over a period of ten years (the life of the loan) using the straight-line method. Amortization expense for these two items was \$712,609 for the year ended December 31, 2014. The accumulated amortization for these two items totaled \$4,676,735 at December 31, 2014.

Escrow accounts: As part of the mortgage note, the League is to deposit monthly an estimate of costs for future payments for real estate taxes, insurance and tenant improvements. These amounts are included in escrows – taxes, insurance and tenant improvements and were \$1,064,764 at December 31, 2014.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

Life members: The League's Operations Manual requires distribution of (1) a one-time rebate to councils upon initial membership of a life member, (2) a one-time distribution to the general operation fund to cover the first year processing and service, (3) a one-time contribution into the life member escrow investment fund (which is included within investments in the statement of financial position), and (4) the balance of the proceeds is invested in the life member investment fund. The council associated with the life member receives an annual pro-rata distribution over the period of the life membership from the escrow investment fund. This escrow distribution is delineated in the NLUS Operations Manual as a portion of life member dues (ages 76 and above \$162.50/life member) (ages 56-75 – \$262.50/life member) (ages 55 and below \$312.50/life member) invested into an escrow account and subsequently distributed to councils in good standing with life members over the period of the life membership. The accrued annual distribution was \$12,460 for the year ended December 31, 2014.

Revenue and support: Rental income from the building's leases is recognized on a straight-line basis over the life of the lease.

Publications revenue is recognized on publications when they are published and distributed.

Sea-Air-Space Exposition revenue is recognized in the year the Sea-Air-Space Exposition occurs.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence (or nature of) any donor restrictions.

The League has various types of memberships available to its members. The revenue recognition policies are as follows:

- Revenue from annual memberships is recognized beginning on the member start date at a 1/12 interval for the next 12 months for members whose dues have been received.
- Revenue from two- and three-year memberships is recognized on a straight-line basis over the membership period beginning in the year received.
- Revenue from life memberships is recognized on a straight-line basis over a ten-year period beginning in the year received.

Net assets: In the accompanying consolidated financial statements, net assets have been classified based on donor-imposed restrictions. The classes of net assets and the description of transactions that result in changes therein are as follows:

Unrestricted net assets: represents funds available at the Board and management's discretion to fund the League's general operations.

Temporarily restricted net assets: represents net assets resulting from contributions the use of which is limited by the donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by the League's actions pursuant to those stipulations. Temporarily restricted net assets include unappropriated earnings on permanently restricted funds.

Permanently restricted net assets: represents net assets resulting from contributions restricted by the donor to be held in perpetuity.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and staff expenses have been allocated to programs on the basis of time spent.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and 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.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the League's consolidated financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Reclassification: Certain items in the December 31, 2013, summarized comparative information have been reclassified to comply with the current year presentation. These reclassifications had no effect on the previously reported change in net assets or net assets.

Income taxes: The Navy League is exempt from federal income tax, except on income from unrelated business activities, under Section 501(c)(3) of the Internal Revenue Code (IRC). The Navy League has been determined by the Internal Revenue Service (IRS) not to be a private foundation under Section 509(a)(1) of the IRC.

The LLC is a single member LLC for federal and state income tax purposes and, as such, it is treated as a disregarded entity for income tax reporting purposes. Consequently, income tax attributes flow through to the Navy League. There was no income tax expense reported for the year ended December 31, 2014.

NLDC is a C Corporation and files income tax returns in the U.S. Federal jurisdiction and the Commonwealth of Virginia. There was no income tax expense reported for the year ended December 31, 2014.

The Association was classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2014. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxable.

The League follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The League may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

Management evaluated all entities' tax positions and concluded that all the entities had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, all entities are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

Upcoming accounting pronouncements: In April 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. This ASU requires a recipient nonprofit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient nonprofit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient nonprofit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. This ASU is effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued. The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

Subsequent events: The League evaluated subsequent events through September 18, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2. Fair Value Measurements

Fair value is defined 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 and sets out a fair value hierarchy. 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). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market based inputs or unobservable inputs corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

In certain cases, the inputs used to measure the 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 League'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.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2014:

Description	Level 1	Level 2	Level 3	Total
Mutual funds				
Large cap equity	\$ 2,500,855	\$ -	\$ -	\$ 2,500,855
Fixed income	1,681,533	-	-	1,681,533
Emerging market	575,242	-	-	575,242
Real estate	78,429	-	-	78,429
Short-term bond	42,893	-	-	42,893
Domestic equity broad	26,686	-	-	26,686
Foreign large blend	15,104	-	-	15,104
Long/short equity	9,324	-	-	9,324
Small blend	9,302	-	-	9,302
EAFE equity	9,230	-	-	9,230
Large growth	7,001	-	-	7,001
Large value	6,995	-	-	6,995
	<u>4,962,593</u>	<u>-</u>	<u>-</u>	<u>4,962,593</u>
Exchange-traded funds				
Small cap equity	1,284,202	-	-	1,284,202
Domestic equity broad	249,387	-	-	249,387
International equity	170,387	-	-	170,387
Complementary strategy	102,827	-	-	102,827
Fixed income	91,011	-	-	91,011
Fixed income international	41,562	-	-	41,562
Real estate	28,230	-	-	28,230
Short-term bond	20,342	-	-	20,342
Large value	17,764	-	-	17,764
Mid-cap value	10,354	-	-	10,354
Mid-cap growth	9,740	-	-	9,740
Large growth	9,501	-	-	9,501
	<u>2,035,307</u>	<u>-</u>	<u>-</u>	<u>2,035,307</u>
Equity securities				
Industrial goods	351,683	-	-	351,683
Consumer goods	163,514	-	-	163,514
Services	112,383	-	-	112,383
Basic materials	97,874	-	-	97,874
Financial	55,521	-	-	55,521
Healthcare	48,290	-	-	48,290
Technology	42,486	-	-	42,486
Utilities	25,368	-	-	25,368
	<u>897,118</u>	<u>-</u>	<u>-</u>	<u>897,118</u>
Money market funds				
	528,997	-	-	528,997
	<u>\$ 8,424,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,424,016</u>

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements (Continued)

Equity securities, exchange-traded funds and mutual funds are classified as Level 1 instruments as there are quoted market prices in active markets for identical assets.

Note 3. Property and Equipment

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

Asset Category	Estimated Lives	Cost	Accumulated Depreciation	Net
Building	39 years	\$ 36,935,496	\$ 8,703,006	\$ 28,232,490
Land	–	4,102,268	-	4,102,268
Tenant improvements	5 – 10 years	9,499,515	6,134,701	3,364,814
Land improvements	15 years	994,532	643,045	351,487
Software	3 – 5 years	1,479,534	1,324,216	155,318
Computer equipment	5 years	293,369	205,327	88,042
Furniture and equipment	5 – 7 years	641,928	634,791	7,137
Building information systems	5 years	2,561,444	2,561,444	-
		<u>\$ 56,508,086</u>	<u>\$ 20,206,530</u>	<u>\$ 36,301,556</u>

Depreciation expense was \$2,297,603 for the year ended December 31, 2014.

On September 13, 2011, the League received two separate appraisals for the building which reported estimated market values for the building of \$99 million and \$105 million.

Note 4. Capital Leases

The League acquired equipment under two non-cancellable lease agreements which, in the aggregate, require monthly payments of \$4,207 through February 2016. The net carrying value of the equipment under the capital leases at December 31, 2014, is as follows:

Cost	\$ 151,590
Accumulated depreciation	(94,980)
	<u>\$ 56,610</u>

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 4. Capital Leases (Continued)

Depreciation expense and interest expense related to the equipment under the capital leases amounted to \$30,318 and \$4,780, respectively, for the year ended December 31, 2014. At December 31, 2014, the future minimum lease payments due under these leases are as follows:

Year Ending December 31,

2015	\$ 27,376
2016	3,910
	<u>31,286</u>
Less amounts representing interest	(2,731)
Total	<u>\$ 28,555</u>

Note 5. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for the year ended December 31, 2014, by type of donor restriction/purpose are as follows:

	Balance December 31, 2013	Additions	Expense/ Restriction Accomplished	Balance December 31, 2014
Purpose restricted				
Awards and youth programs	\$ 132,334	\$ 9,488	\$ (2,000)	\$ 139,822
Safety awards fund	55,087	2,776	(3,500)	54,363
Oceanic education	28,278	683	(34)	28,927
Advocay	-	13,601	(7,275)	6,326
Time restricted				
Harris	222,250	33,887	(204,679)	51,458
President Circle	16,700	25,354	(42,054)	-
	<u>\$ 454,649</u>	<u>\$ 85,789</u>	<u>\$ (259,542)</u>	<u>\$ 280,896</u>

Note 6. Debt

The Navy League has a line of credit with a bank. The total amount available under the line is \$5,400,000. The amount due under the line at December 31, 2014, was \$3,198,019. The line bears interest at a fixed rate per annum equal to the adjusted London InterBank Offered Rate (LIBOR) plus 0.80% or a fixed rate per annum equal to the offer rate loan. The rate in effect ranged from 0.965% to 0.969% for the year ended December 31, 2014. The investment accounts held at this bank are held as collateral for this loan and are subject to certain loan-to-value covenants as determined by the bank from time to time. The line of credit expires on July 31, 2016.

The LLC has a term mortgage note on the Navy League Building. The amount due under the note at December 31, 2014, was \$40,853,657. The note bears interest at 5.595% per annum. The term mortgage note matures on March 1, 2016. Certain real estate of the LLC, including the building, equipment, escrows and future rental receipts on leases are pledged as collateral for the loan.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 6. Debt (Continued)

The maturities on this mortgage note at December 31, 2014, are due in future years as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 964,089	\$ 2,292,591	\$ 3,256,680
2016	39,889,568	563,058	40,452,626
	<u>\$ 40,853,657</u>	<u>\$ 2,855,649</u>	<u>\$ 43,709,306</u>

The LLC also has a second mortgage with an Association which is also a tenant of the building. The total amount due under the note was \$7,000,000 at December 31, 2014. The note requires interest to be paid quarterly at rate of 8.68% per annum, with the principal due on December 31, 2025. Certain real estate of the LLC is pledged as collateral for the loan. The balance on the note along with any unpaid interest is due on December 31, 2025.

Total interest expense incurred on all debt during the year ended December 31, 2014, was \$2,984,588.

Note 7. Leasing Arrangements as Lessor

The LLC leases space in a building it owns to several tenants. The leases expire through the year 2030. Rental income under these leases, exclusive of the Navy League lease, was \$5,344,718 for the year ended December 31, 2014. A new lease was executed in May 2015 with a new tenant. The future minimum rent to be received for this new lease is included in the schedule below.

The minimum rental receipts as of December 31, 2014, to be received in future years are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 4,989,672
2016	5,279,122
2017	5,800,463
2018	6,438,173
2019	4,407,312
2020 – 2030	36,104,805
	<u>\$ 63,019,547</u>

Note 8. Sea-Air-Space Exposition

The Navy League, in conjunction with the National Capital Council of the Navy League, sponsors an annual exposition to disseminate information on the aerospace/defense industry. The profits from the 2014 exposition are divided as follows:

Navy League	92%
National Capital Council	8%

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 9. Pension Plan

The League maintains a 403(b) defined contribution plan (DC Plan) and a tax deferred annuity plan (TOA Plan) for employees meeting eligibility requirements as defined in the plans. The TOA Plan permits voluntary employee contributions; the DC Plan provides for a fully-vested non-elective employer contribution of various percentages of eligible employee compensation for the plan year. Employer contributions to the 403(b) Plan were \$126,726 for the year ended December 31, 2014.

Note 10. Related Parties

The League is related to the Navy League Foundation (the Foundation) through common Board membership. During the year ended December 31, 2014, certain employees spent a portion of their time on Foundation activities. The League incurred \$20,170 in management services and \$9,866 for the cost of various general and administrative services during the year ended December 31, 2014, which were donated to the Foundation. The League incurred additional costs for the Foundation that are payable to the League at December 31, 2014 in the amount of \$1,109.

The League is also related to the U.S. Naval Sea Cadet Corps (USNSCC) through common Board membership and shared facilities. A portion of USNSCC's funding is provided through a grant from the League. During the year ended December 31, 2014, the League contributed \$425,885 directly to USNSCC. The League provides office space and other indirect support, valued at \$170,614, free of charge to USNSCC. USNSCC also purchases equipment and services from the League. The League had accounts receivable due from USNSCC of \$1,254 at December 31, 2014.

Note 11. Commitments and Contingencies

The Navy League has contracted with various hotels for space for its conventions. In the event that the Navy League cancels or reduces its contracted room nights, the Navy League may be liable, in future years, for attrition fees for all rooms that the hotel will not be able to resell.

The Navy League is subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management, there are no legal proceedings which could have a material effect on the financial position of the League.

Note 12. Endowments

Interpretation of relevant law: The League 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 League 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 classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the League in a manner consistent with the standard of prudence prescribed by UPMIFA.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 12. Endowments (Continued)

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

- The purposes of the League's endowment funds
- The duration and preservation of the funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Return objective and risk parameters: The League's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support their programs. The League is primarily invested in publicly traded mutual funds, equities, money market funds and corporate bonds.

Spending policies: The earnings from these endowments are available in support of programs of the League. The League appropriates the entire balance of the annual earnings to be available for the programs listed on the following page

The Navy League's endowment funds consist of the following at December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Awards and youth programs	\$ 139,822	\$ 186,536	\$ 326,358
Oceanic education	28,927	17,193	46,120
	<u>\$ 168,749</u>	<u>\$ 203,729</u>	<u>\$ 372,478</u>

Changes in the endowment during 2014 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 160,612	\$ 203,729	\$ 364,341
Amounts appropriated for expenditure	(2,034)	-	(2,034)
Investment income	10,171	-	10,171
Endowment net assets, end of year	<u>\$ 168,749</u>	<u>\$ 203,729</u>	<u>\$ 372,478</u>

The activity for the temporarily restricted endowment funds are classified within the awards and youth programs category and oceanic education category in Note 5.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 13. Management Plans

In the comparison of the consolidated financials of the Navy League of the United States and Affiliates for years 2014 and 2013, the 2013 net asset deficit was (\$961,676) and 2014 net asset deficit was (\$2,321,757). This represents an increased net asset deficit of (\$1,360,081) over the course of the year. Many of these expenses were known business costs based on the cyclical nature of leasing tenancies and the funds used to meet these outlays had been set aside in advance. The deficit is a result of reduced cash and cash equivalents; increased receivables, net, prepaid expenses, escrows (tenant improvements) and deferred rent receivables. The total current liabilities have increased due to the loss of tenancies and renegotiated leases. The total assets have decreased over the course of the year due to cash needs of the NLUS and increased escrows, deferred rent receivables.

Over the past two years, management has been creating the following plans to prevent the Navy League and Affiliates from operating at a net deficit. As a historical basis, the LLC reached full occupancy in 2011. In 2013, tenancy dropped to 75% occupancy at the expiration of a tenant lease and after the United States Coast Guard exercised its government option for early termination, which is standard in all government tenancy agreements. In 2014 and 2015, the LLC renegotiated three leases early, which resulted in two tenants expanding their floor plates and one downsize. The LLC also negotiated a termination agreement with tenancy. These transactions resulted in decreased vacancy of 75.46% upon completion. The LLC has negotiated a lease with a new tenant for the remaining vacancy in the building that will increase occupancy to 100% as the tenant lease was signed in June and move in December 2015.

The new negotiated leases will result in a net operating income of over \$3.8 million, \$5.5 million and \$6.6 million in years 2016, 2017 and 2018, respectively. These increases in net operating income will positively affect the total assets of the Navy League and Affiliates by reducing receivables and escrows and over time it will also decrease the deferred rent receivable. The LLC will also renegotiate its primary and secondary mortgages, consolidating the notes on the asset and reducing the corresponding expenses by reducing the interest. The average vacancy for this type of commercial building in this corridor is 25% therefore the performance exceeds market. In addition, 2015 represents the end of market correcting leases. Further, this refinance effort will replenish the LLC Reserves over the next three years to fund tenant improvement/leasing costs.

Efforts to reduce expenses have been underway across the consolidated enterprise and will continue.

During the previous two years, the Navy League has been actively seeking, cultivating and receiving new income sources. The Navy League has begun to develop and foster its planned giving program, its donor specific programs, and new industry programs, all of which promote the sea services and foster new revenue streams. These efforts have raised awareness in the public about the importance of sea services and over time will diversify revenue streams and programs of the Navy League to support its mission.



**Independent Auditor's Report
on the Supplementary Information**

To the Board of Directors
Navy League of the United States
Arlington, Virginia

We have audited the consolidated financial statements of the Navy League of the United States and Affiliates as of and for the year ended December 31, 2014, and have issued our report thereon, dated September 18, 2015, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements as a whole.

The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, results of activities and cash flows of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The consolidating and other supplementary information as of and for the year ended December 31, 2014, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole. The consolidating and other supplementary information as of and for the year ended December 31, 2013, was audited by other auditors, whose report, dated November 10, 2014, expressed an unmodified opinion on such information in relation to the 2013 financial statement as a whole.

McGladrey LLP

McLean, Virginia
September 18, 2015

Navy League of the United States and Affiliates

Consolidating Statement of Financial Position

December 31, 2014

	Navy League of the United States	Navy League Building LLC	Navy League Development Corporation	Navy League Building Condo Unit Owners Association	Eliminations	Consolidated Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 665,173	\$ 786,575	\$ 613,940	\$ 1,145	\$ -	\$ 2,066,833
Receivables, net	2,585,188	227,479	88,129	981,304	(1,786,484)	2,095,616
Prepaid expenses	459,985	10,961	-	39,769	-	510,715
Promises to give, current portion	62,337	-	-	-	-	62,337
Total current assets	3,772,683	1,025,015	702,069	1,022,218	(1,786,484)	4,735,501
Non-Current Assets						
Investments	14,035,187	7,496,737	-	-	(13,107,908)	8,424,016
Cash surrender value of life insurance policy	132,162	-	-	-	-	132,162
Painting	42,000	-	-	-	-	42,000
Escrows – taxes, insurance and tenant improvements	-	1,064,764	-	-	-	1,064,764
Deferred rent receivable	-	2,739,003	-	-	(419,619)	2,319,384
Leasing commissions and loan costs, net of amortization	-	1,455,260	-	-	-	1,455,260
Property and equipment, net	282,620	30,136,980	5,881,956	-	-	36,301,556
Total non-current assets	14,491,969	42,892,744	5,881,956	-	(13,527,527)	49,739,142
Total assets	\$ 18,264,652	\$ 43,917,759	\$ 6,584,025	\$ 1,022,218	\$(15,314,011)	\$ 54,474,643
Liabilities and Net Assets (Deficit)						
Current Liabilities						
Accounts payable and accrued expenses	\$ 1,041,810	\$ 1,331,994	\$ 485,781	\$ 839,186	\$ (1,786,484)	\$ 1,912,287
Capital lease obligations, current portion	24,986	-	-	-	-	24,986
Accrued interest payable	-	196,830	-	-	-	196,830
Line of credit	3,198,019	-	-	-	-	3,198,019
Notes payable, current portion	-	964,089	-	-	-	964,089
Deferred revenue, current portion	3,207,861	-	-	-	-	3,207,861
Total current liabilities	7,472,676	2,492,913	485,781	839,186	(1,786,484)	9,504,072
Non-Current Liabilities						
Notes payable, non-current portion	-	46,889,568	-	-	-	46,889,568
Capital lease obligations, non-current portion	3,569	-	-	-	-	3,569
Deferred revenue, non-current portion	635,778	-	-	-	(419,619)	216,159
Prepaid assessments	-	-	-	183,032	-	183,032
Total non-current liabilities	639,347	46,889,568	-	183,032	(419,619)	47,292,328
Net Assets (Deficit)						
Unrestricted	9,668,004	(5,464,722)	6,098,244	-	(13,107,908)	(2,806,382)
Temporarily restricted	280,896	-	-	-	-	280,896
Permanently restricted	203,729	-	-	-	-	203,729
	10,152,629	(5,464,722)	6,098,244	-	(13,107,908)	(2,321,757)
Total liabilities and net assets (deficit)	\$ 18,264,652	\$ 43,917,759	\$ 6,584,025	\$ 1,022,218	\$(15,314,011)	\$ 54,474,643

Navy League of the United States and Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2014

	Navy League of the United States	Navy League Building LLC	Navy League Development Corporation	Navy League Building Condo Unit Owners Association	Eliminations	Consolidated Total
Revenue and Support						
Rental income	\$ -	\$ 6,180,191	\$ -	\$ -	\$ (835,473)	\$ 5,344,718
Sea-Air-Space Exposition	3,786,174	-	-	-	-	3,786,174
Membership dues	1,684,026	-	-	-	-	1,684,026
Contributions	1,998,022	-	-	-	-	1,998,022
Assessment income	-	-	-	1,514,254	(1,419,541)	94,713
Expense recoveries from tenants and parking contract	-	691,754	589,059	-	-	1,280,813
Publications	1,018,678	-	-	-	-	1,018,678
Royalty, commissions and other income	434,087	140	-	44,891	-	479,118
Navy League Building LLC asset management fee	114,236	-	-	-	(114,236)	-
Total revenue and support	9,035,223	6,872,085	589,059	1,559,145	(2,369,250)	15,686,262
Expenses						
Program services:						
Sea-Air-Space exposition	3,017,147	-	-	-	(138,020)	2,879,127
Seapower	1,174,083	-	-	-	(111,369)	1,062,714
Support programs	630,391	-	-	-	-	630,391
Navy ball	351,246	-	-	-	-	351,246
Volunteer training	252,264	-	-	-	(40,855)	211,409
Legislative affairs	218,686	-	-	-	(32,166)	186,520
President support	203,563	-	-	-	-	203,563
Public affairs	203,033	-	-	-	(30,328)	172,705
International exposition	84,730	-	-	-	-	84,730
Stem	15,281	-	-	-	-	15,281
Total program services	6,150,424	-	-	-	(352,738)	5,797,686
Support Services						
Building operations	-	7,992,151	-	-	-	7,992,151
Management and general	856,352	-	683,924	1,559,145	(1,814,640)	1,284,781
Membership recruitment	1,385,086	-	-	-	(133,341)	1,251,745
President support	681,491	-	-	-	(22,079)	659,412
Fundraising	454,353	-	-	-	(46,452)	407,901
Total support services	3,377,282	7,992,151	683,924	1,559,145	(2,016,512)	11,595,990
Total expenses	9,527,706	7,992,151	683,924	1,559,145	(2,369,250)	17,393,676
Change in net assets before other changes	(492,483)	(1,120,066)	(94,865)	-	-	(1,707,414)
Other Changes						
Realized/unrealized gain on investments	167,793	-	-	-	-	167,793
Interest and dividends	175,972	-	-	-	-	175,972
Unrealized gain on cash surrender value of life insurance policy	3,568	-	-	-	-	3,568
Total other changes	347,333	-	-	-	-	347,333
Change in net assets	(145,150)	(1,120,066)	(94,865)	-	-	(1,360,081)
Net Assets (Deficit)						
Beginning	10,297,779	(4,344,656)	6,193,109	-	(13,107,908)	(961,676)
Ending	\$ 10,152,629	\$ (5,464,722)	\$ 6,098,244	\$ -	\$ (13,107,908)	\$ (2,321,757)

Navy League of the United States

Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 665,173	\$ 351,465
Receivables, net	2,585,188	1,294,429
Promises to give, current portion	62,337	146,658
Prepaid expenses	459,985	309,415
Total current assets	3,772,683	2,101,967
Non-Current Assets		
Promises to give, non-current portion	-	92,292
Investments	14,035,187	15,406,121
Cash surrender value of life insurance policy	132,162	128,594
Painting	42,000	42,000
Property and equipment, net	282,620	379,297
Total non-current assets	14,491,969	16,048,304
Total assets	\$ 18,264,652	\$ 18,150,271
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,041,810	\$ 1,039,719
Capital lease obligations, current portion	24,986	46,037
Line of credit	3,198,019	3,198,019
Deferred revenue, current portion	3,207,861	2,836,842
Total current liabilities	7,472,676	7,120,617
Non-Current Liabilities		
Capital lease obligations, non-current portion	3,569	25,974
Deferred revenue, non-current portion	635,778	705,901
Total non-current liabilities	639,347	731,875
Net Assets		
Unrestricted	9,668,004	9,639,401
Temporarily restricted	280,896	454,649
Permanently restricted	203,729	203,729
Total net assets	10,152,629	10,297,779
Total liabilities and net assets	\$ 18,264,652	\$ 18,150,271

Navy League of the United States

Statements of Activities

Years Ended December 31, 2014 and 2013

	2014	2013
Revenue and Support		
Sea-Air-Space Exposition	\$ 3,786,174	\$ 3,757,168
Membership dues	1,684,026	1,631,846
Publications	1,018,678	1,304,213
Contributions	1,998,022	976,919
Royalty, commissions and other income	434,087	413,214
Navy League Building LLC asset management fee	114,236	195,840
Total revenue and support	9,035,223	8,279,200
Expenses		
Program services:		
Sea-Air-Space Exposition	3,017,147	2,808,377
Seapower	1,174,083	1,866,379
Support programs	630,391	976,594
Navy ball	351,246	306,828
Volunteer training	252,264	165,721
Legislative affairs	218,686	250,259
President support	203,563	244,759
Public affairs	203,033	275,538
International Exposition	84,730	142,878
Stem	15,281	30,133
Total program services	6,150,424	7,067,466
Support services:		
Management and general	856,352	852,707
Membership recruitment	1,385,086	1,088,339
President support	681,491	820,038
Fundraising	454,353	640,463
Total support services	3,377,282	3,401,547
Total expenses	9,527,706	10,469,013
Change in net assets before other changes	(492,483)	(2,189,813)
Other Assets		
Realized/unrealized gain on investments	167,793	1,971,942
Interest and dividends	175,972	150,199
Unrealized gain on cash surrender value of life insurance policy	3,568	4,345
Total other charges	347,333	2,126,486
Change in net assets	(145,150)	(63,327)
Net Assets		
Beginning	10,297,779	10,361,106
Ending	\$ 10,152,629	\$ 10,297,779

Navy League of the United States

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

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ (145,150)	\$ (63,327)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	167,842	140,040
Unrealized/realized gains on investments	(167,793)	(1,971,942)
Unrealized gain on cash surrender value of life insurance policy	(3,568)	(4,345)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(1,290,759)	35,134
Promises to give	176,613	(6,279)
Prepaid expenses	(150,570)	115,624
Increase (decrease) in:		
Accounts payable and accrued expenses	2,091	(39,721)
Deferred revenue	300,896	(50,923)
Net cash used in operating activities	(1,110,398)	(1,845,739)
Cash Flows From Investing Activities		
Purchase of property and equipment	(71,165)	(114,168)
Purchase of investments	(2,344,168)	(2,357,608)
Proceeds from sales/maturities of investments	3,882,895	3,823,295
Net cash provided by investing activities	1,467,562	1,351,519
Cash Flows From Financing Activities		
Principal payments on line of credit	-	(4,801,981)
Advances drawn on note payable	-	5,400,000
Principal payments on capital lease obligations	(43,456)	(45,707)
Net cash provided by (used in) financing activities	(43,456)	552,312
Net increase in cash and cash equivalents	313,708	58,092
Cash and Cash Equivalents		
Beginning	351,465	293,373
Ending	\$ 665,173	\$ 351,465
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 35,742	\$ 36,595

Navy League Building LLC

Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents:		
Cash – operating	\$ 488,307	\$ 2,681,517
Security deposits	298,268	313,166
	<u>786,575</u>	<u>2,994,683</u>
Accounts receivable, net	227,479	282,191
Prepaid expenses	10,961	10,643
Total current assets	<u>1,025,015</u>	<u>3,287,517</u>
Non-Current Assets		
Escrows – taxes, insurance and tenant improvements	1,064,764	975,127
Deferred rent receivable	2,739,003	2,060,365
Leasing commissions and loan costs, net of amortization	1,455,260	1,628,391
Investment in Navy League Development Corp.	7,496,737	7,496,737
Property and equipment, net	30,136,980	30,007,327
Total non-current assets	<u>42,892,744</u>	<u>42,167,947</u>
Total assets	<u>\$ 43,917,759</u>	<u>\$ 45,455,464</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	1,331,994	834,197
Accrued interest payable	196,830	201,219
Note payable, current portion	964,089	911,048
Total current liabilities	<u>2,492,913</u>	<u>1,946,464</u>
Non-Current Liabilities		
Note payable, non-current portion	46,889,568	47,853,656
Total liabilities	<u>49,382,481</u>	<u>49,800,120</u>
Net Assets (Deficit)		
Unrestricted deficit	(5,464,722)	(4,344,656)
Total liabilities and net assets (deficit)	<u>\$ 43,917,759</u>	<u>\$ 45,455,464</u>

Navy League Building LLC

**Statements of Activities
Years Ended December 31, 2014 and 2013**

	2014	2013
Revenue		
Rental income earned	\$ 6,180,191	\$ 6,650,039
Expense recoveries from tenants	691,754	688,045
Other income	140	418
Total revenue	6,872,085	7,338,502
Expenses		
Interest	2,948,846	2,999,215
Depreciation and amortization	2,647,814	2,160,353
Condominium association dues	1,107,726	1,427,399
Property taxes	1,005,150	954,237
Other operating expenses	282,615	307,085
Total expenses	7,992,151	7,848,289
Change in net assets	(1,120,066)	(509,787)
Net Assets (Deficit)		
Beginning	(4,344,656)	(3,834,869)
Ending	\$ (5,464,722)	\$ (4,344,656)

Navy League Building LLC

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

	2014	2013
Cash Flows From Operating Activities		
Change in net assets (deficit)	\$ (1,120,066)	\$ (509,787)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization, property and equipment	1,935,205	1,713,181
Depreciation and amortization, lease commissions and loan costs	712,609	447,172
Deferred rent receivable	(678,638)	241,163
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	54,712	(170,103)
Prepaid expenses	(318)	(388)
Escrow – taxes, insurance and tenant improvements	(89,637)	(190,765)
Increase (decrease) in:		
Accounts payable and accrued expenses	73,373	(4,566)
Accrued interest payable	(4,389)	(4,148)
Net cash provided by operating activities	882,851	1,521,759
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,640,434)	-
Payments on leasing commissions	(539,478)	(426,126)
Net cash used in investing activities	(2,179,912)	(426,126)
Cash Flows From Financing Activities		
Principal payment on note payable	(911,047)	(860,921)
Net cash used in financing activities	(911,047)	(860,921)
Net increase (decrease) in cash and cash equivalents	(2,208,108)	234,712
Cash and Cash Equivalents		
Beginning	2,994,683	2,759,971
Ending	\$ 786,575	\$ 2,994,683
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 2,953,235	\$ 3,003,363
Supplemental Schedule of Noncash Investing and Financing Activities		
Tenant improvements included in accounts payable	\$ 424,424	\$ -

Navy League Development Corporation

Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash – Operating	\$ 613,940	\$ 565,278
Receivables, net	88,129	128,986
Total current assets	702,069	694,264
Non-Current Assets		
Property and equipment, net of depreciation	5,881,956	6,076,512
Total assets	\$ 6,584,025	\$ 6,770,776
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 485,781	\$ 577,667
Net Assets		
Unrestricted	6,098,244	6,193,109
Total liabilities and net assets	\$ 6,584,025	\$ 6,770,776

Navy League Development Corporation

Statements of Activities

Years Ended December 31, 2014 and 2013

	2014	2013
Revenue		
Parking contract income	\$ 589,059	\$ 604,198
Total revenue	589,059	604,198
Expenses		
Condominium association dues	311,815	156,358
Depreciation	194,556	194,556
Maintenance, insurance and other costs	129,436	136,472
Salaries and benefits for parking attendants	30,117	35,267
Management fees	18,000	18,000
Total expenses	683,924	540,653
Change in net assets	(94,865)	63,545
Net Assets		
Beginning	6,193,109	6,129,564
Ending	\$ 6,098,244	\$ 6,193,109

Navy League Development Corporation

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

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ (94,865)	\$ 63,545
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	194,556	194,556
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	40,857	21,925
Increase (decrease) in:		
Accounts payable and accrued expenses	(91,886)	(66,978)
Net cash provided by operating activities	48,662	213,048
Net increase in cash	48,662	213,048
Cash		
Beginning	565,278	352,230
Ending	\$ 613,940	\$ 565,278

Navy League Building Condominium Unit Owners Association

Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents – operating	\$ 1,145	\$ 64,873
Receivables	981,304	1,106,407
Prepaid expenses	39,769	39,753
	<hr/>	<hr/>
Total assets	\$ 1,022,218	\$ 1,211,033
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 839,186	\$ 1,028,001
Prepaid assessments	183,032	183,032
	<hr/>	<hr/>
	1,022,218	1,211,033
Fund Balance		
Operating Fund	-	-
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,022,218	\$ 1,211,033
	<hr/> <hr/>	<hr/> <hr/>

Navy League Building Condominium Unit Owners Association

**Statements of Revenue, Expenses and Changes in Fund Balance
Years Ended December 31, 2014 and 2013**

	2014	2013
Revenue		
Assessment income	\$ 1,514,254	\$ 1,700,493
Other income	44,891	53,790
Total revenue	1,559,145	1,754,283
Expenses		
Utilities	368,836	378,007
Salaries and benefits	364,087	378,120
Janitorial	237,219	269,274
Office rent, telephone and other administrative costs	113,610	222,223
Security	105,163	96,899
HVAC supplies and repairs	88,351	96,936
Other supplies and maintenance	81,817	60,257
Insurance	62,719	61,298
Management fees	44,843	45,176
Plumbing repairs and supplies	26,759	43,012
Landscaping and ground maintenance	24,732	25,228
Other	21,334	22,474
Electrical repairs and maintenance	19,675	55,379
Total expenses	1,559,145	1,754,283
Excess of revenue over expenses	-	-
Fund Balance		
Beginning	-	-
Ending	\$ -	\$ -

Navy League Building Condominium Unit Owners Association

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

	2014	2013
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ -	\$ -
Adjustments to reconcile excess of revenue over expenses to net cash used in operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	125,103	(228,782)
Prepaid expenses	(16)	453
Increase (decrease) in:		
Accounts payable and accrued expenses	(188,815)	172,001
Net cash used in operating activities	(63,728)	(56,328)
Net decrease in cash	(63,728)	(56,328)
Cash		
Beginning	64,873	121,201
Ending	\$ 1,145	\$ 64,873