

Navy League of the United States and Affiliates

Consolidated Financial Report
December 31, 2016

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RSM US LLP

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, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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, 2016, 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

We have previously audited the League's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
June 24, 2017

Navy League of the United States and Affiliates

**Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)**

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,928,641 | \$ 5,442,517 |
| Escrow – rent abatement reserve | 976,585 | - |
| Receivables, net | 850,875 | 1,082,302 |
| Promises to give | 43,710 | 40,507 |
| Prepaid expenses | 789,287 | 357,892 |
| Total current assets | 7,589,098 | 6,923,218 |
| Non-current assets: | | |
| Investments | 10,989,390 | 8,843,044 |
| Cash surrender value of life insurance policy | 152,179 | 134,825 |
| Painting | 42,000 | 42,000 |
| Escrows – taxes, insurance, repairs and other | 600,979 | 5,837,185 |
| Deferred rent receivable | 4,781,093 | 2,877,306 |
| Leasing commissions, net of amortization | 1,616,088 | 2,009,747 |
| Property and equipment, net | 37,754,330 | 39,386,410 |
| Total non-current assets | 55,936,059 | 59,130,517 |
| Total assets | \$ 63,525,157 | \$ 66,053,735 |
| Liabilities and Net Assets (Deficit) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,827,722 | \$ 3,365,240 |
| Accrued interest payable | 255,130 | 255,130 |
| Capital lease obligations, current portion | - | 3,114 |
| Line of credit | 1,427,518 | 3,198,019 |
| Deferred revenue, current portion | 3,499,846 | 3,121,661 |
| Total current liabilities | 7,010,216 | 9,943,164 |
| Non-current liabilities: | | |
| Notes payable, non-current portion | 59,638,966 | 59,555,010 |
| Deferred revenue, non-current portion | 213,812 | 537,605 |
| Security deposits | 297,992 | 298,268 |
| Prepaid assessments | 183,032 | 183,032 |
| Total non-current liabilities | 60,333,802 | 60,573,915 |
| Total liabilities | 67,344,018 | 70,517,079 |
| Commitments and contingencies (Notes 5, 10 and 12) | | |
| Net assets (deficit): | | |
| Unrestricted | (4,451,945) | (4,942,243) |
| Temporarily restricted | 429,355 | 275,170 |
| Permanently restricted | 203,729 | 203,729 |
| Total net assets (deficit) | (3,818,861) | (4,463,344) |
| Total liabilities and net assets (deficit) | \$ 63,525,157 | \$ 66,053,735 |

See notes to consolidated financial statements.

Navy League of the United States and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2016
(With Comparative Totals for 2015)**

| | 2016 | | | Total | 2015 Total |
|--|-------------------|---------------------------|---------------------------|-------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Revenue and support: | | | | | |
| Building rental income | \$ 7,085,195 | \$ - | \$ - | \$ 7,085,195 | \$ 5,432,779 |
| Sea-Air-Space Exposition | 4,497,034 | - | - | 4,497,034 | 4,104,987 |
| Membership dues | 1,844,346 | - | - | 1,844,346 | 1,522,535 |
| Contributions | 349,184 | 107,654 | - | 456,838 | 809,000 |
| Assessment income | 97,559 | - | - | 97,559 | 94,699 |
| Expense recoveries from tenants | 607,756 | - | - | 607,756 | 545,430 |
| Parking contract income | 627,975 | - | - | 627,975 | 641,539 |
| Publications – Seapower | 770,886 | - | - | 770,886 | 964,359 |
| Navy ball | 233,440 | - | - | 233,440 | 293,650 |
| Royalty and other income | 181,460 | - | - | 181,460 | 248,703 |
| International exposition | 254,948 | - | - | 254,948 | 239,240 |
| America strength | - | 210,000 | - | 210,000 | 210,000 |
| Net assets released from restrictions | 194,563 | (194,563) | - | - | - |
| Total revenue and support | 16,744,346 | 123,091 | - | 16,867,437 | 15,106,921 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Sea-Air-Space Exposition | 2,657,183 | - | - | 2,657,183 | 2,641,750 |
| Seapower | 987,229 | - | - | 987,229 | 1,162,511 |
| Support programs | 642,549 | - | - | 642,549 | 646,745 |
| International exposition | 348,625 | - | - | 348,625 | 422,577 |
| Navy ball | 381,081 | - | - | 381,081 | 381,816 |
| America strength | 81,271 | - | - | 81,271 | 276,340 |
| Legislative affairs | 206,842 | - | - | 206,842 | 187,612 |
| Public affairs | 198,861 | - | - | 198,861 | 176,018 |
| President support | 430,131 | - | - | 430,131 | 140,806 |
| Stem | 60,649 | - | - | 60,649 | 87,001 |
| Volunteer training | 122,496 | - | - | 122,496 | 73,482 |
| Total program services | 6,116,917 | - | - | 6,116,917 | 6,196,658 |
| Support services: | | | | | |
| Building operations | 8,138,973 | - | - | 8,138,973 | 8,485,672 |
| Management and general | 1,323,895 | - | - | 1,323,895 | 1,150,448 |
| Membership recruitment | 919,407 | - | - | 919,407 | 1,142,119 |
| President support | 444,044 | - | - | 444,044 | 471,396 |
| Fundraising | 181,498 | - | - | 181,498 | 240,548 |
| Total support services | 11,007,817 | - | - | 11,007,817 | 11,490,183 |
| Total expenses | 17,124,734 | - | - | 17,124,734 | 17,686,841 |
| Change in net assets before other changes | (380,388) | 123,091 | - | (257,297) | (2,579,920) |
| Other changes: | | | | | |
| Realized/unrealized gain on investments | 717,760 | - | - | 717,760 | 390,848 |
| Interest and dividend income | 152,926 | 31,094 | - | 184,020 | 60,100 |
| Loss on debt extinguishment | - | - | - | - | (12,615) |
| Total other changes | 870,686 | 31,094 | - | 901,780 | 438,333 |
| Change in net assets (deficit) | 490,298 | 154,185 | - | 644,483 | (2,141,587) |
| Net assets (deficit): | | | | | |
| Beginning | (4,942,243) | 275,170 | 203,729 | (4,463,344) | (2,321,757) |
| Ending | \$ (4,451,945) | \$ 429,355 | \$ 203,729 | \$ (3,818,861) | \$ (4,463,344) |

See notes to consolidated financial statements.

Navy League of the United States and Affiliates

Consolidated Statement of Cash Flows Year Ended December 31, 2016 (With Comparative Totals for 2015)

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets (deficit) | \$ 644,483 | \$ (2,141,587) |
| Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities: | | |
| Realized and unrealized gain on investments | (717,760) | (390,848) |
| Unrealized gain on cash surrender value of life insurance policy | (17,354) | (2,663) |
| Loss on debt extinguishment | - | 12,615 |
| Depreciation and amortization, property and equipment | 2,167,905 | 2,085,508 |
| Amortization of leasing commission | 554,873 | 545,030 |
| Amortization of loan costs | 83,956 | 6,798 |
| Increase in allowance for doubtful accounts | 5,000 | 55,093 |
| Write off of prior year lease negotiation costs | 73,547 | - |
| Deferred rent receivable | 133,649 | (557,922) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 226,427 | 958,221 |
| Promises to give | (3,203) | 21,830 |
| Prepaid expenses | (431,395) | 152,823 |
| Escrows – taxes, insurance, repairs and other | 4,259,621 | (4,772,421) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (3,574,954) | (710,639) |
| Accrued interest payable | - | 58,300 |
| Deferred revenue | 54,392 | 235,246 |
| Net cash provided by (used in) operating activities | 3,459,187 | (4,444,616) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (535,825) | (2,708,502) |
| Purchase of investments | (6,695,705) | (9,812,032) |
| Proceeds from sales/maturities of investments | 5,267,119 | 9,783,852 |
| Payments of leasing commissions | (234,761) | (1,563,920) |
| Net cash used in investing activities | (2,199,172) | (4,300,602) |
| Cash flows from financing activities: | | |
| Proceeds from note payable | - | 60,000,000 |
| Principal payments on notes payable | - | (47,404,929) |
| Payment of line of credit | (1,770,501) | - |
| Principal payments on capital lease obligations | (3,114) | (25,441) |
| Payment of security deposits | (276) | - |
| Payment of loan issuance costs | - | (448,728) |
| Net cash (used in) provided by financing activities | (1,773,891) | 12,120,902 |
| Net (decrease) increase in cash and cash equivalents | (513,876) | 3,375,684 |
| Cash and cash equivalents: | | |
| Beginning | 5,442,517 | 2,066,833 |
| Ending | \$ 4,928,641 | \$ 5,442,517 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 3,039,782 | \$ 3,795,555 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Tenant improvements included in accounts payable | \$ - | \$ 2,037,436 |

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, corporate bonds 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 \$72,093 at December 31, 2016.

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, 2016.

Capitalized leasing commissions: The costs associated with obtaining leases for the LLC's building have been capitalized and amortized over the lives of the applicable leases using the straight-line method. The accumulated amortization for lease commissions totaled \$5,286,625 at December 31, 2016.

Loan costs: Loan costs are being amortized using the effective interest method over a period of ten years (the life of the loan). The accumulated amortization for loan costs totaled \$87,694 at December 31, 2016. Unamortized loan costs are reported with notes payable.

Escrow accounts: As part of the mortgage note, the League is required to deposit monthly an estimate of costs for future payments for real estate taxes, insurance, capital repairs and replacements, tenant improvements and leasing commissions. These amounts that are included in escrows – taxes, insurance, repairs and other totaled \$600,979 at December 31, 2016. Included in this amount is also a rent abatement reserve in the amount of \$976,585 at December 31, 2016, which will be disbursed in scheduled amounts during the term of the leases of various tenants for which there is rent abatement. The rent abatement reserve is scheduled to be fully paid out to the LLC by December 31, 2017.

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 Navy 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 consolidated 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 \$147.50/life member) (ages 56-75 – \$247.50/life member) (ages 55 and below \$297.50/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 \$121,740 at December 31, 2016.

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, international exposition and Navy ball revenue are recognized in the year the events occur.

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

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

Revenue for annual memberships is recognized one half in the first year under the mid-year convention.

Revenue from two- and three-year memberships is recognized on a straight-line basis over the membership period beginning in the year received. The League assumes all members to join on July 1 of the year the membership is received.

Revenue from life memberships is recognized on a straight-line basis over a ten-year period beginning in the year received. The League assumes all members to join on July 1 of the year the membership is received.

Parking income is recognized as services are utilized or monthly per contracted terms.

Royalty income is recognized in the period when earned.

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.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

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

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 consolidated 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, 2015, from which the summarized information was derived.

Reclassification: Certain items in the December 31, 2015, 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 (deficit) or net assets (deficit).

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, 2016.

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, 2016.

The Association was classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2016. 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 Association had no net unrelated business income for the year ended December 31, 2016.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

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.

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 2013.

Adopted accounting pronouncements: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The League adopted this ASU during the year ended December 31, 2016.

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. The League adopted this pronouncement during the year ended December 31, 2016, with no material impact on the consolidated financial statements.

Recent accounting pronouncements: Certain accounting pronouncements have recently been issued by the FASB.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale on whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The League is in the process of evaluating the impact of this new guidance.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The League is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The League is in the process of evaluating the impact of this new guidance.

Subsequent events: The League evaluated subsequent events through June 24, 2017, 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, 2016:

| Description | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|----------------------|------------------|-------------|----------------------|
| Mutual funds: | | | | |
| Fixed income | \$ 2,132,872 | \$ - | \$ - | \$ 2,132,872 |
| Equity securities: | | | | |
| US large cap | 3,556,611 | - | - | 3,556,611 |
| US mid cap | 1,689,301 | - | - | 1,689,301 |
| US small cap | 584,128 | - | - | 584,128 |
| EAFE | 1,140,424 | - | - | 1,140,424 |
| Foreign equities | 931,509 | - | - | 931,509 |
| Emerging market | 263,989 | - | - | 263,989 |
| | <u>8,165,962</u> | <u>-</u> | <u>-</u> | <u>8,165,962</u> |
| Fixed income: | | | | |
| Corporate bonds | - | 10,328 | - | 10,328 |
| REIT Exchange-traded fund | 44,575 | - | - | 44,575 |
| Long/short equity fund | 9,237 | - | - | 9,237 |
| | <u>53,812</u> | <u>-</u> | <u>-</u> | <u>53,812</u> |
| Total investments | <u>\$ 10,352,646</u> | <u>\$ 10,328</u> | <u>\$ -</u> | <u>\$ 10,362,974</u> |
| Cash and cash equivalents | | | | |
| in investment portfolios | | | | <u>626,416</u> |
| Total cash and investments | | | | <u>626,416</u> |
| in investment portfolios | | | | <u>\$ 10,989,390</u> |

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. The corporate bonds receive interest income based on their stated interest rates and are classified as Level 2 instruments, as there are no quoted market prices in active markets for identical assets. The value is determined using models and other valuation methodologies, which are corroborated by market data.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

Property and equipment consist of the following at December 31, 2016:

| | Estimated Lives | Cost | Accumulated Depreciation | Net |
|---|--------------------|---------------|-----------------------------|---------------|
| Asset category: | | | | |
| Land | – | \$ 4,102,268 | \$ - | \$ 4,102,268 |
| Land improvements | 15 years | 994,532 | 743,809 | 250,723 |
| Building | 39 years | 37,006,454 | 10,605,508 | 26,400,946 |
| Tenant improvements | 5-10 years | 15,019,486 | 8,106,957 | 6,912,529 |
| Building information systems and software | 3-5 years | 4,121,436 | 4,065,939 | 55,497 |
| Computer equipment, furniture and fixture | 5-7 years | 945,384 | 913,017 | 32,367 |
| | | \$ 62,189,560 | \$ 24,435,230 | \$ 37,754,330 |

Depreciation expense was \$2,167,905 for the year ended December 31, 2016.

During the year ended December 31, 2015, the League received two separate appraisals for the land and building which reported estimated market values of \$98 million and \$108 million.

Note 4. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets for the year ended December 31, 2016, by type of donor restriction/purpose are as follows:

| | Balance December 31, 2015 | Additions | Expense/ Restriction Accomplished | Balance December 31, 2016 |
|---------------------------|---------------------------------|------------|---|---------------------------------|
| Purpose restricted: | | | | |
| America Strength | \$ - | \$ 210,000 | \$ (93,187) | \$ 116,813 |
| Awards and youth programs | 139,028 | 29,145 | (3,982) | 164,191 |
| Safety awards fund | 54,296 | 2,980 | (58) | 57,218 |
| Oceanic education | 30,176 | 1,949 | (106) | 32,019 |
| Advocacy | 11,164 | 200 | - | 11,364 |
| STEM | - | 3,450 | - | 3,450 |
| Handclasp | - | 11,000 | - | 11,000 |
| Time restricted: | | | | |
| Harris | 39,137 | 44,607 | (83,744) | - |
| President Circle | 1,369 | 45,417 | (13,486) | 33,300 |
| | \$ 275,170 | \$ 348,748 | \$ (194,563) | \$ 429,355 |

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 5. Debt

Line of credit: 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, 2016, was \$1,427,518. 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 1.27% to 1.71% for the year ended December 31, 2016. 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, 2017.

Notes payable: During December 2015, the LLC refinanced the existing loans with a new bank loan. The amount borrowed from the bank loan was \$60,000,000. At December 31, 2016, the loan bears interest at 4.938% and interest only is due monthly until January 2021 at which time monthly payments of principal and interest are payable in the amount of \$319,823. The principal of the loan matures on December 1, 2025. Certain real estate of the LLC, including the building, equipment, escrows and future rental receipts on leases are pledged as collateral for the loan. In March 2016, the loan was sold to another bank, securitized and added to a pool of commercial loans. The loan continues to be subject to certain debt covenants as determined by the bank from time to time.

Total interest expense incurred on all debt during the year ended December 31, 2016, was \$3,039,782.

Notes payable as of December 31, 2016, consists of the following:

| | |
|-----------------------------|----------------------|
| Principal amount | \$ 60,000,000 |
| Less unamortized loan costs | (361,034) |
| | <u>\$ 59,638,966</u> |

Note 6. 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 \$7,085,195 for the year ended December 31, 2016. The future minimum rent to be received for these leases is included in the schedule below.

The minimum rental receipts as of December 31, 2016, to be received in future years are as follows:

| | |
|---------------------------|----------------------|
| Years ending December 31: | |
| 2017 | \$ 7,059,119 |
| 2018 | 8,016,618 |
| 2019 | 6,058,397 |
| 2020 | 6,212,452 |
| 2021 | 6,237,074 |
| Thereafter | 35,064,882 |
| | <u>\$ 68,648,542</u> |

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 7. Sea-Air-Space Exposition

The Navy League, with administrative support from the National Capital Council of the Navy League, sponsors an annual exposition to disseminate information on the aerospace/defense industry. A percentage of the total profit from the 2016 exposition is allocated as follows pursuant to an agreement between the Navy League and the National Capital Council:

| | |
|--------------------------|-----|
| Navy League | 99% |
| National Capital Council | 1% |

Note 8. Retirement Plan

The Navy 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 \$104,105 for the year ended December 31, 2016.

Note 9. Related Parties

The Navy League is related to the Navy League Foundation (the Foundation) through common Board membership. During the year ended December 31, 2016, certain employees spent a portion of their time on Foundation activities. The Navy League incurred \$49,490 in management services of which \$24,142 were donated to the Foundation. The Navy League incurred additional costs for the Foundation that are payable to the League at December 31, 2016, in the amount of \$2,433.

The Navy 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 Navy League. During the year ended December 31, 2016, the Navy League contributed \$448,543 directly to USNSCC. The Navy League provides office space and other indirect support, valued at \$167,522, free of charge to USNSCC. USNSCC also purchases equipment and services from the Navy League. The Navy League had accounts receivable due from USNSCC of \$2,600 at December 31, 2016.

Note 10. 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.

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 11. Endowments

Interpretation of relevant law: The Navy 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.

In accordance with UPMIFA, the Navy 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 Navy League's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support their programs. The Navy 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 Navy League. The Navy League may appropriate 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, 2016:

| | Temporarily Restricted | Permanently Restricted | Total |
|---------------------------|---------------------------|---------------------------|-------------------|
| Awards and youth programs | \$ 164,191 | \$ 186,536 | \$ 350,727 |
| Oceanic education | 32,019 | 17,193 | 49,212 |
| | <u>\$ 196,210</u> | <u>\$ 203,729</u> | <u>\$ 399,939</u> |

Navy League of the United States and Affiliates

Notes to Consolidated Financial Statements

Note 11. Endowments (Continued)

Changes in the endowment during 2016, are as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------------|---------------------------|-------------------|
| Endowment net assets, beginning of year | \$ 169,204 | \$ 203,729 | \$ 372,933 |
| Investment income | 31,094 | - | 31,094 |
| Amounts appropriated for expenditure | (4,088) | - | (4,088) |
| Endowment net assets, end of year | <u>\$ 196,210</u> | <u>\$ 203,729</u> | <u>\$ 399,939</u> |

The activity for the temporarily restricted endowment funds are classified within the awards and youth programs category and oceanic education category in Note 4.

Note 12. Management's Plans

The consolidated financial statements of the Navy League of the United States and Affiliates as of December 31, 2016 and 2015, show a net asset deficit of (\$3,818,861) and (\$4,463,344), respectively. This represents a decrease in the net asset deficit of \$644,483 over the course of one fiscal year. The deficit is primarily a result of the loss of a significant tenant of the LLC in 2013 that had not been replaced until late 2015. Also the LLC has significant depreciation and amortization costs recorded of \$2,477,342 and \$2,255,986 during the years ended December 31, 2016 and 2015, which are non-cash decreases to net assets and has over time eroded net assets.

The League was successful in negotiating and filling the remaining vacant space in the building at the end of 2015. At the end of fiscal year 2015, the building occupancy was increased to 100%. This increase, along with the League's renegotiated lower rate mortgage, resulted in a positive change in cash flow for the LLC from a net use of cash in operating activities of (\$6,141,743) in 2015 to a net cash provided by operating activities of \$1,656,710 in 2016. The net cash provided by operating activities increased by \$7,798,453 in one year. This also had a positive effect on change in net assets from year to year on the statement of activities. In 2015, the LLC's financial statements showed a change in net assets of (\$1,700,524); however, in 2016 the change in net assets was \$376,953. This shows an increase in revenue and a decrease in expenses resulting in an increase in net assets from 2015 to 2016 of \$2,077,477.

These increases of revenues, decrease of expenses and increased cash from operating activities show that the League does not represent a going concern. The large loss associated with the depreciation and amortization costs and the loss of revenue due to early termination of a large government tenant has increased the net asset deficit over the years. The favorable financial results from 2015 and 2016 mentioned previously show that management's plans to renegotiate its mortgage and aggressively market the LLC within the market have had a positive effect on the financial health of the consolidated organization and will continue to do so over the next three years. The net operating income of the LLC is projected to steadily increase each year to over \$5.4 million and \$5.9 million during the years ending December 31, 2017 and 2018, respectively.



RSM US LLP

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, 2016, and have issued our report thereon, dated June 24, 2017, 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 2016 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, 2016, 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, 2015, was previously audited by us and, in our report dated June 1, 2016, we expressed an unmodified opinion on such information in relation to the 2015 financial statement as a whole.

RSM US LLP

McLean, Virginia
June 24, 2017

Navy League of the United States and Affiliates

Consolidating Statement of Financial Position

December 31, 2016

| | 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 | \$ 858,000 | \$ 3,757,752 | \$ 233,801 | \$ 79,088 | \$ - | \$ 4,928,641 |
| Escrow - rent abatement reserve | - | 976,585 | - | - | - | 976,585 |
| Receivables, net | 294,590 | 66,503 | 692,762 | 579,329 | (782,309) | 850,875 |
| Promises to give, net | 43,710 | - | - | - | - | 43,710 |
| Prepaid expenses | 720,915 | 11,631 | - | 56,741 | - | 789,287 |
| Total current assets | 1,917,215 | 4,812,471 | 926,563 | 715,158 | (782,309) | 7,589,098 |
| Non-current assets: | | | | | | |
| Investments | 16,600,561 | 7,496,737 | - | - | (13,107,908) | 10,989,390 |
| Cash surrender value of life insurance policy | 152,179 | - | - | - | - | 152,179 |
| Painting | 42,000 | - | - | - | - | 42,000 |
| Escrows – taxes, insurance, repairs and other | - | 600,979 | - | - | - | 600,979 |
| Deferred rent receivable | - | 5,601,052 | - | - | (819,959) | 4,781,093 |
| Leasing commissions, net of amortization | - | 1,616,088 | - | - | - | 1,616,088 |
| Property and equipment, net | 86,984 | 32,114,280 | 5,482,108 | 70,958 | - | 37,754,330 |
| Total non-current assets | 16,881,724 | 47,429,136 | 5,482,108 | 70,958 | (13,927,867) | 55,936,059 |
| Total assets | \$ 18,798,939 | \$ 52,241,607 | \$ 6,408,671 | \$ 786,116 | \$ (14,710,176) | \$ 63,525,157 |
| Liabilities and Net Assets (Deficit) | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ 742,097 | \$ 708,313 | \$ 556,537 | \$ 603,084 | \$ (782,309) | \$ 1,827,722 |
| Accrued interest payable | - | 255,130 | - | - | - | 255,130 |
| Line of credit | 1,427,518 | - | - | - | - | 1,427,518 |
| Deferred revenue, current portion | 3,499,846 | - | - | - | - | 3,499,846 |
| Total current liabilities | 5,669,461 | 963,443 | 556,537 | 603,084 | (782,309) | 7,010,216 |
| Non-current liabilities: | | | | | | |
| Note payable, non-current portion | - | 59,638,966 | - | - | - | 59,638,966 |
| Deferred revenue, non-current portion | 213,812 | - | - | - | - | 213,812 |
| Deferred rent liability | 819,959 | - | - | - | (819,959) | - |
| Security deposits | - | 297,992 | - | - | - | 297,992 |
| Prepaid assessments | - | - | - | 183,032 | - | 183,032 |
| Total non-current liabilities | 1,033,771 | 59,936,958 | - | 183,032 | (819,959) | 60,333,802 |
| Net assets (deficit): | | | | | | |
| Unrestricted | 11,462,623 | (8,658,794) | 5,852,134 | - | (13,107,908) | (4,451,945) |
| Temporarily restricted | 429,355 | - | - | - | - | 429,355 |
| Permanently restricted | 203,729 | - | - | - | - | 203,729 |
| | 12,095,707 | (8,658,794) | 5,852,134 | - | (13,107,908) | (3,818,861) |
| Total liabilities and net assets (deficit) | \$ 18,798,939 | \$ 52,241,607 | \$ 6,408,671 | \$ 786,116 | \$ (14,710,176) | \$ 63,525,157 |

Navy League of the United States and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2016

| | 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: | | | | | | |
| Building rental income | \$ - | \$ 7,895,803 | \$ - | \$ - | \$ (810,608) | \$ 7,085,195 |
| Sea-Air-Space Exposition | 4,497,034 | - | - | - | - | 4,497,034 |
| Membership dues | 1,844,346 | - | - | - | - | 1,844,346 |
| Contributions | 456,838 | - | - | - | - | 456,838 |
| Assessment income | - | - | - | 1,547,373 | (1,449,814) | 97,559 |
| Expense recoveries from tenants | - | 607,756 | - | - | - | 607,756 |
| Parking contract income | - | - | 627,975 | - | - | 627,975 |
| Publications – Seapower | 770,886 | - | - | - | - | 770,886 |
| Navy ball | 233,440 | - | - | - | - | 233,440 |
| International exposition | 254,948 | - | - | - | - | 254,948 |
| America strength | 210,000 | - | - | - | - | 210,000 |
| Navy League Building LLC asset management fee | 121,509 | - | - | - | (121,509) | - |
| Royalty, commissions and rental income | 122,416 | 12,367 | - | 46,677 | - | 181,460 |
| Total revenue and support | 8,511,417 | 8,515,926 | 627,975 | 1,594,050 | (2,381,931) | 16,867,437 |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Sea-Air-Space exposition | 2,702,415 | - | - | - | (45,232) | 2,657,183 |
| Seapower | 1,108,253 | - | - | - | (121,024) | 987,229 |
| Support programs | 647,332 | - | - | - | (4,783) | 642,549 |
| International exposition | 375,780 | - | - | - | (27,155) | 348,625 |
| Navy ball | 390,241 | - | - | - | (9,160) | 381,081 |
| America strength | 93,187 | - | - | - | (11,916) | 81,271 |
| Legislative affairs | 244,941 | - | - | - | (38,099) | 206,842 |
| Public affairs | 235,582 | - | - | - | (36,721) | 198,861 |
| President support | 439,509 | - | - | - | (9,378) | 430,131 |
| Stem | 62,351 | - | - | - | (1,702) | 60,649 |
| Volunteer training | 177,861 | - | - | - | (55,365) | 122,496 |
| Total program services | 6,477,452 | - | - | - | (360,535) | 6,116,917 |
| Support services: | | | | | | |
| Building operations | - | 8,138,973 | - | - | - | 8,138,973 |
| Management and general | 738,974 | - | 815,023 | 1,594,050 | (1,824,152) | 1,323,895 |
| Membership recruitment | 1,069,937 | - | - | - | (150,530) | 919,407 |
| President support | 475,440 | - | - | - | (31,396) | 444,044 |
| Fundraising | 196,816 | - | - | - | (15,318) | 181,498 |
| Total support services | 2,481,167 | 8,138,973 | 815,023 | 1,594,050 | (2,021,396) | 11,007,817 |
| Total expenses | 8,958,619 | 8,138,973 | 815,023 | 1,594,050 | (2,381,931) | 17,124,734 |
| Change in net assets before other changes | (447,202) | 376,953 | (187,048) | - | - | (257,297) |
| Other changes: | | | | | | |
| Distributions received on investment | 1,870,501 | - | - | - | (1,870,501) | - |
| Realized/unrealized gain on investments | 717,760 | - | - | - | - | 717,760 |
| Interest and dividend income | 184,020 | - | - | - | - | 184,020 |
| Total other changes | 2,772,281 | - | - | - | (1,870,501) | 901,780 |
| Change in net assets | 2,325,079 | 376,953 | (187,048) | - | (1,870,501) | 644,483 |
| Net assets (deficit): | | | | | | |
| Beginning | 9,770,628 | (7,165,246) | 6,039,182 | - | (13,107,908) | (4,463,344) |
| Distributions | - | (1,870,501) | - | - | 1,870,501 | - |
| Ending | \$ 12,095,707 | \$ (8,658,794) | \$ 5,852,134 | \$ - | \$ (13,107,908) | \$ (3,818,861) |

Navy League of the United States

Statements of Financial Position
December 31, 2016 and 2015

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 858,000 | \$ 2,742,048 |
| Receivables, net | 294,590 | 105,064 |
| Promises to give | 43,710 | 40,507 |
| Prepaid expenses | 720,915 | 300,210 |
| Total current assets | 1,917,215 | 3,187,829 |
| Non-current assets: | | |
| Investments | 16,600,561 | 14,454,215 |
| Cash surrender value of life insurance policy | 152,179 | 134,825 |
| Painting | 42,000 | 42,000 |
| Property and equipment, net | 86,984 | 208,998 |
| Total non-current assets | 16,881,724 | 14,840,038 |
| Total assets | \$ 18,798,939 | \$ 18,027,867 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 742,097 | \$ 696,890 |
| Capital lease obligations, current portion | - | 3,114 |
| Line of credit | 1,427,518 | 3,198,019 |
| Deferred revenue, current portion | 3,499,846 | 3,121,661 |
| Total current liabilities | 5,669,461 | 7,019,684 |
| Non-current liabilities: | | |
| Deferred revenue, non-current portion | 213,812 | 537,605 |
| Deferred rent liability | 819,959 | 699,950 |
| Total non-current liabilities | 1,033,771 | 1,237,555 |
| Net assets: | | |
| Unrestricted | 11,462,623 | 9,291,729 |
| Temporarily restricted | 429,355 | 275,170 |
| Permanently restricted | 203,729 | 203,729 |
| Total net assets | 12,095,707 | 9,770,628 |
| Total liabilities and net assets | \$ 18,798,939 | \$ 18,027,867 |

Navy League of the United States

Statements of Activities

Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------|---------------------|
| Revenue and support: | | |
| Sea-Air-Space Exposition | \$ 4,497,034 | \$ 4,104,987 |
| Membership dues | 1,844,346 | 1,522,535 |
| Contributions | 456,838 | 809,000 |
| Publications – Seapower | 770,886 | 964,359 |
| Navy ball | 233,440 | 293,650 |
| International exposition | 254,948 | 239,240 |
| America strength | 210,000 | 210,000 |
| Navy League Building LLC asset management fee | 121,509 | 115,647 |
| Royalty and other income | 122,416 | 210,017 |
| Total revenue and support | 8,511,417 | 8,469,435 |
| Expenses: | | |
| Program services: | | |
| Sea-Air-Space Exposition | 2,702,415 | 2,774,593 |
| Seapower | 1,108,253 | 1,280,685 |
| Support programs | 647,332 | 650,187 |
| International exposition | 375,780 | 441,344 |
| Navy ball | 390,241 | 383,865 |
| America strength | 93,187 | 288,633 |
| Legislative affairs | 244,941 | 220,720 |
| Public affairs | 235,582 | 210,847 |
| President support | 439,509 | 145,047 |
| Stem | 62,351 | 103,064 |
| Volunteer training | 177,861 | 74,875 |
| Total program services | 6,477,452 | 6,573,860 |
| Support services: | | |
| Membership recruitment | 1,069,937 | 1,285,206 |
| Management and general | 738,974 | 682,346 |
| President support | 475,440 | 485,594 |
| Fundraising | 196,816 | 275,378 |
| Total support services | 2,481,167 | 2,728,524 |
| Total expenses | 8,958,619 | 9,302,384 |
| Change in net assets before other changes | (447,202) | (832,949) |
| Other changes: | | |
| Distribution received on investment in LLC | 1,870,501 | - |
| Realized/unrealized gain on investments | 717,760 | 390,848 |
| Interest and dividend income | 184,020 | 60,100 |
| Total other changes | 2,772,281 | 450,948 |
| Change in net assets | 2,325,079 | (382,001) |
| Net assets: | | |
| Beginning | 9,770,628 | 10,152,629 |
| Ending | \$ 12,095,707 | \$ 9,770,628 |

Navy League of the United States

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|--------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,325,079 | \$ (382,001) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 132,014 | 178,880 |
| Unrealized/realized gains on investments | (717,760) | (390,848) |
| Unrealized gain on cash surrender value of life insurance policy | (17,354) | (2,663) |
| Deferred rent liability | 120,009 | 280,331 |
| Increase in allowance for doubtful accounts | 5,000 | - |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | (194,526) | 2,480,124 |
| Promises to give, net | (3,203) | 21,830 |
| Prepaid expenses | (420,705) | 159,775 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 45,207 | 74,699 |
| Deferred revenue | 54,392 | (184,373) |
| Net cash provided by operating activities | 1,328,153 | 2,235,754 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (10,000) | (105,258) |
| Purchase of investments | (6,695,705) | (9,812,032) |
| Proceeds from sales/maturities of investments | 5,267,119 | 9,783,852 |
| Net cash used in investing activities | (1,438,586) | (133,438) |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligations | (3,114) | (25,441) |
| Repayment on line of credit | (1,770,501) | - |
| Net cash used in financing activities | (1,773,615) | (25,441) |
| Net (decrease) increase in cash and cash equivalents | (1,884,048) | 2,076,875 |
| Cash and cash equivalents: | | |
| Beginning | 2,742,048 | 665,173 |
| Ending | \$ 858,000 | \$ 2,742,048 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 27,602 | \$ 36,794 |

Navy League Building LLC

Balance Sheets

December 31, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents – operating | \$ 3,459,484 | \$ 2,325,743 |
| Cash and cash equivalents – restricted for security deposits | 298,268 | 298,268 |
| | <u>3,757,752</u> | <u>2,624,011</u> |
| Escrow – rent abatement reserve | 976,585 | - |
| | <u>4,734,337</u> | <u>2,624,011</u> |
| Accounts receivable, net | 66,503 | 475,361 |
| Prepaid expenses | 11,631 | 11,385 |
| Total current assets | <u>4,812,471</u> | <u>3,110,757</u> |
| Non-current assets: | | |
| Escrows – taxes, insurance, repairs and other | 600,979 | 5,837,185 |
| Deferred rent receivable | 5,601,052 | 3,577,256 |
| Leasing commissions, net of amortization | 1,616,088 | 2,009,747 |
| Investment in Navy League Development Corp. | 7,496,737 | 7,496,737 |
| Property and equipment, net | 32,114,280 | 33,497,926 |
| Total non-current assets | <u>47,429,136</u> | <u>52,418,851</u> |
| Total assets | <u>\$ 52,241,607</u> | <u>\$ 55,529,608</u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 708,313 | \$ 2,586,446 |
| Accrued interest payable | 255,130 | 255,130 |
| Total current liabilities | <u>963,443</u> | <u>2,841,576</u> |
| Non-current liabilities: | | |
| Security deposits | 297,992 | 298,268 |
| Note payable, non-current portion | 59,638,966 | 59,555,010 |
| Total liabilities | <u>60,900,401</u> | <u>62,694,854</u> |
| Net assets (deficit): | | |
| Unrestricted deficit | <u>(8,658,794)</u> | <u>(7,165,246)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 52,241,607</u> | <u>\$ 55,529,608</u> |

Navy League Building LLC

Statements of Activities

Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Revenue: | | |
| Building rental income earned | \$ 7,895,803 | \$ 6,252,294 |
| Expense recoveries from tenants | 607,756 | 545,430 |
| Interest income | 12,367 | 39 |
| Total revenue | 8,515,926 | 6,797,763 |
| Expenses: | | |
| Interest | 3,012,180 | 3,817,061 |
| Depreciation and amortization | 2,477,342 | 2,255,986 |
| Condominium association dues | 1,216,731 | 1,104,401 |
| Property taxes | 972,468 | 895,761 |
| Other operating expenses | 460,252 | 412,463 |
| Total expenses | 8,138,973 | 8,485,672 |
| Change in net assets before other changes | 376,953 | (1,687,909) |
| Other changes: | | |
| Loss on debt extinguishment | - | (12,615) |
| Change in net assets | 376,953 | (1,700,524) |
| Net assets (deficit): | | |
| Beginning | (7,165,246) | (5,464,722) |
| Distribution to member | (1,870,501) | - |
| Ending | \$ (8,658,794) | \$ (7,165,246) |

Navy League Building LLC

Statements of Cash Flows Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets (deficit) | \$ 376,953 | \$ (1,700,524) |
| Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization, property and equipment | 1,838,513 | 1,704,158 |
| Amortization of leasing commissions | 554,873 | 545,030 |
| Amortization of loan costs | 83,956 | 6,798 |
| Increase in allowance for doubtful accounts | - | 55,093 |
| Loss on debt extinguishment | - | 12,615 |
| Write off of lease negotiation cost | 73,547 | - |
| Deferred rent receivable | 13,640 | (838,253) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 408,858 | (302,975) |
| Prepaid expenses | (246) | (424) |
| Escrow – taxes, insurance, repairs and other | 4,259,621 | (4,772,421) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (3,915,569) | (909,140) |
| Accrued interest payable | - | 58,300 |
| Net cash provided by (used in) operating activities | 3,694,146 | (6,141,743) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (454,867) | (2,603,244) |
| Payments of leasing commissions | (234,761) | (1,563,920) |
| Net cash used in investing activities | (689,628) | (4,167,164) |
| Cash flows from financing activities: | | |
| Proceeds from note payable | - | 60,000,000 |
| Principal payments on notes payable | - | (47,404,929) |
| Payment of loan issuance costs | - | (448,728) |
| Payment of security deposit | (276) | - |
| Distribution to member | (1,870,501) | - |
| Net cash (used in) provided by financing activities | (1,870,777) | 12,146,343 |
| Net increase in cash and cash equivalents | 1,133,741 | 1,837,436 |
| Cash and cash equivalents: | | |
| Beginning | 2,624,011 | 786,575 |
| Ending | \$ 3,757,752 | \$ 2,624,011 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 3,012,180 | \$ 3,758,761 |

Navy League Development Corporation

Balance Sheets

December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash – operating | \$ 233,801 | \$ 18,988 |
| Receivables, net | <u>692,762</u> | <u>792,054</u> |
| Total current assets | 926,563 | 811,042 |
| Non-current assets: | | |
| Property and equipment, net | <u>5,482,108</u> | <u>5,679,486</u> |
| Total assets | \$ 6,408,671 | \$ 6,490,528 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 556,537 | \$ 451,346 |
| Net assets: | | |
| Unrestricted | <u>5,852,134</u> | <u>6,039,182</u> |
| Total liabilities and net assets | \$ 6,408,671 | \$ 6,490,528 |

Navy League Development Corporation

Statements of Activities

Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------------|--------------|
| Revenue: | | |
| Parking contract income | \$ 627,975 | \$ 641,539 |
| Total revenue | 627,975 | 641,539 |
| Expenses: | | |
| Condominium association dues | 383,837 | 296,472 |
| Depreciation | 197,378 | 202,470 |
| Maintenance, insurance and other costs | 153,150 | 152,323 |
| Salaries and benefits for parking attendants | 62,658 | 31,336 |
| Management fees | 18,000 | 18,000 |
| Total expenses | 815,023 | 700,601 |
| Change in net assets | (187,048) | (59,062) |
| Net assets: | | |
| Beginning | 6,039,182 | 6,098,244 |
| Ending | \$ 5,852,134 | \$ 6,039,182 |

Navy League Development Corporation

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (187,048) | \$ (59,062) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 197,378 | 202,470 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 99,292 | (703,925) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 105,191 | (34,435) |
| Net cash provided by (used in) operating activities | 214,813 | (594,952) |
| Net increase (decrease) in cash | 214,813 | (594,952) |
| Cash: | | |
| Beginning | 18,988 | 613,940 |
| Ending | \$ 233,801 | \$ 18,988 |

Navy League Building Condominium Unit Owners Association

Balance Sheets

December 31, 2016 and 2015

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents – operating | \$ 79,088 | \$ 57,470 |
| Receivables | 579,329 | 675,650 |
| Prepaid expenses | 56,741 | 46,297 |
| Total current assets | 715,158 | 779,417 |
| Non-current assets: | | |
| Property and equipment | 70,958 | - |
| Total assets | \$ 786,116 | \$ 779,417 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 603,084 | \$ 596,385 |
| Prepaid assessments | 183,032 | 183,032 |
| | 786,116 | 779,417 |
| Fund balance: | | |
| Operating fund | - | - |
| Total liabilities and net assets | \$ 786,116 | \$ 779,417 |

Navy League Building Condominium Unit Owners Association

**Statements of Revenue, Expenses and Changes in Fund Balance
Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|------------------|------------------|
| Revenue: | | |
| Assessment income | \$ 1,547,373 | \$ 1,495,572 |
| Other income | 46,677 | 38,647 |
| Total revenue | 1,594,050 | 1,534,219 |
| Expenses: | | |
| Salaries and benefits | 362,027 | 395,048 |
| Utilities | 377,313 | 381,166 |
| Janitorial | 274,112 | 230,748 |
| HVAC supplies and repairs | 113,721 | 108,197 |
| Security | 110,672 | 90,382 |
| Other supplies and maintenance | 57,131 | 85,078 |
| Insurance | 75,916 | 66,557 |
| Office rent, telephone and other administrative costs | 104,584 | 57,971 |
| Management fees | 43,985 | 41,766 |
| Plumbing repairs and supplies | 39,021 | 33,087 |
| Electrical repairs and maintenance | 16,415 | 22,460 |
| Landscaping and ground maintenance | 9,695 | 14,479 |
| Other | 9,458 | 7,280 |
| Total expenses | 1,594,050 | 1,534,219 |
| Excess of revenue over expenses | - | - |
| Fund balance: | | |
| Beginning | - | - |
| Ending | \$ - | \$ - |

Navy League Building Condominium Unit Owners Association

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Excess of revenue over expenses | \$ - | \$ - |
| Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities: | | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 96,321 | 305,654 |
| Prepaid expenses | (10,444) | (6,528) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 6,699 | (242,801) |
| Net cash provided by operating activities | 92,576 | 56,325 |
| Cash flows from Investing activities: | | |
| (Increase) decrease in: | | |
| Purchases of property and equipment | (70,958) | - |
| Net cash used in investing activities | (70,958) | - |
| Net increase in cash | 21,618 | 56,325 |
| Cash: | | |
| Beginning | 57,470 | 1,145 |
| Ending | \$ 79,088 | \$ 57,470 |