UNITED STATES NAVAL INSTITUTE AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

UNITED STATES NAVAL INSTITUTE AND AFFILIATE
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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Naval Institute and Affiliate
Annapolis, Maryland

We have audited the accompanying consolidated financial statements of the United States Naval Institute and Affiliate (collectively known as the Institute), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 auditors' 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.

A member of Nexia International

Board of Directors
United States Naval Institute and Affiliate

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Institute's financial statements were restated to correct the presentation of unrestricted net assets that were previously shown as temporarily restricted net assets. This restatement had no impact on total net assets. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

Baltimore, Maryland
May 8, 2018

UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016 (AS RESTATED)

	2017	2016 (As Restated)
ASSETS		
ASSETS		
Cash	$ 1,797,173	$ 541,239
Accounts Receivable, Less Allowance for Doubtful Accounts of $75,000 in 2017 and $45,000 in 2016	1,096,843	887,576
Contributions Receivable, Net	1,042,152	990,513
Inventory	2,190,699	2,226,326
Prepaid Expenses and Other Assets	762,257	866,813
Investments, at Fair Value	7,538,360	8,112,301
Property and Equipment, Net	1,481,237	1,563,436
Deferred Publishing Costs	172,384	106,984
Total Assets	$ 16,081,105	$ 15,295,188
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,282,027	$ 1,426,438
Deferred Membership Dues	2,646,018	2,732,674
Deferred Subscriptions	400,006	433,860
Other Deferred Revenue	97,500	124,330
Unfunded Pension Obligation	1,696,179	1,956,651
Total Liabilities	6,121,730	6,673,953
NET ASSETS		
Unrestricted	4,032,336	3,471,684
Temporarily Restricted	4,867,388	4,081,449
Permanently Restricted	1,059,651	1,068,102
Total Net Assets	9,959,375	8,621,235
Total Liabilities and Net Assets	$ 16,081,105	$ 15,295,188

See accompanying Notes to Consolidated Financial Statements.

UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
REVENUES, INVESTMENT ACTIVITY, AND PUBLIC SUPPORT				
Publication Sales	$ 4,497,838	$ -	$ -	$ 4,497,838
Membership Dues and Subscriptions	2,051,578	-	-	2,051,578
Contributions	3,969,311	2,344,601	-	6,313,912
Advertising	670,142	-	-	670,142
Conference Income	641,854	-	-	641,854
Investment Income, Net	208,691	75,852	-	284,543
Net Realized and Unrealized Gain on Investments	508,823	12,009	-	520,832
Royalties	131,792	-	-	131,792
Other Income	4,474	-	-	4,474
Net Assets Released from Restrictions:				
Satisfaction of Program and Time Restrictions	1,654,974	(1,654,974)	-	-
Total Revenues, Investment Activity, and Public Support	14,339,477	777,488	-	15,116,965
EXPENSES				
Program Services:				
Publishing Costs	6,373,034	-	-	6,373,034
Conference Expenses	307,335	-	-	307,335
Royalties	451,642	-	-	451,642
Special Projects	449,423	-	-	449,423
Other	292,094	-	-	292,094
Total Program Services	7,873,528	-	-	7,873,528
Supporting Services:				
Administrative Costs	3,486,323	-	-	3,486,323
Fundraising Expense	1,413,314	-	-	1,413,314
Membership Development	636,132	-	-	636,132
Total Supporting Services	5,535,769	-	-	5,535,769
Total Expenses	13,409,297	-	-	13,409,297
Change in Net Assets from Operating Activities	930,180	777,488	-	1,707,668
Nonoperating:				
Pension Related Changes Other Than Net Periodic Pension Costs	(369,528)	-	-	(369,528)
Change in Net Assets from Nonoperating Activities	(369,528)	-	-	(369,528)
CHANGES IN NET ASSETS	560,652	777,488	-	1,338,140
Net Assets - Beginning of Year, As Restated	3,471,684	4,081,449	1,068,102	8,621,235
Transfers of Net Assets	-	8,451	(8,451)	-
NET ASSETS - END OF YEAR	$ 4,032,336	$ 4,867,388	$ 1,059,651	$ 9,959,375

See accompanying Notes to Consolidated Financial Statements.

UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016 (AS RESTATED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
REVENUES, INVESTMENT ACTIVITY, AND PUBLIC SUPPORT				
Publication Sales	$ 3,693,383	$ -	$ -	$ 3,693,383
Membership Dues and Subscriptions	2,131,155	-	-	2,131,155
Contributions	1,266,762	4,096,435	-	5,363,197
Advertising	623,764	-	-	623,764
Conference Income	433,450	-	-	433,450
Investment Income, Net	77,395	5,091	-	82,486
Net Realized and Unrealized Gain on Investments	798,243	27,440	-	825,683
Royalties	115,080	-	-	115,080
Other Income	4,577	-	-	4,577
Net Assets Released from Restrictions:				
Satisfaction of Program and Time Restrictions	1,608,011	(1,608,011)	-	-
Total Revenues, Investment Activity, and Public Support	10,751,820	2,520,955	-	13,272,775
EXPENSES				
Program Services:				
Publishing Costs	5,590,811	-	-	5,590,811
Conference Expenses	393,855	-	-	393,855
Royalties	215,403	-	-	215,403
Special Projects	399,831	-	-	399,831
Other	305,410	-	-	305,410
Total Program Services	6,905,310	-	-	6,905,310
Supporting Services:				
Administrative Costs	3,325,001	-	-	3,325,001
Fundraising Expense	1,212,187	-	-	1,212,187
Membership Development	591,311	-	-	591,311
Total Supporting Services	5,128,499	-	-	5,128,499
Total Expenses	12,033,809	-	-	12,033,809
Change in Net Assets from Operating Activities	(1,281,989)	2,520,955	-	1,238,966
Nonoperating:				
Pension Related Changes Other Than Net Periodic Pension Costs	(697,969)	-	-	(697,969)
Change in Net Assets from Nonoperating Activities	(697,969)	-	-	(697,969)
CHANGES IN NET ASSETS	(1,979,958)	2,520,955	-	540,997
Net Assets - Beginning of Year, As Previously Reported	5,239,383	1,772,753	1,068,102	8,080,238
Correction of Classification of Net Assets	212,259	(212,259)	-	-
Net Assets - Beginning of Year, As Restated	5,451,642	1,560,494	1,068,102	8,080,238
NET ASSETS - END OF YEAR	$ 3,471,684	$ 4,081,449	$ 1,068,102	$ 8,621,235

See accompanying Notes to Consolidated Financial Statements.

UNITED STATES NAVAL INSTITUTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,338,140	$ 540,997
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	195,714	223,755
Increase in Inventory Reserve	119,557	89,999
Increase in Allowance for Doubtful Accounts and Contributions Receivable	36,000	12,040
Net Unrealized and Realized Gains on Investments	(520,832)	(825,683)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(239,267)	108,340
Contributions Receivable	(57,639)	(258,017)
Inventory	(83,930)	(330,912)
Prepaid Expenses and Other Assets	104,556	178,476
Deferred Publishing Costs	(65,400)	(48,946)
Accounts Payable and Accrued Expenses	(144,411)	(198,198)
Deferred Membership Dues	(86,656)	(84,641)
Deferred Subscriptions	(33,854)	(53,674)
Other Deferred Revenue	(26,830)	1,112
Unfunded Pension Obligation	(260,472)	(1,043,209)
Net Cash Provided (Used) by Operating Activities	274,676	(1,688,561)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(113,515)	(115,039)
Purchases of Investments	(1,417,790)	(1,542,035)
Proceeds from Sales and Maturities of Investments	2,512,563	3,466,080
Net Cash Provided by Investing Activities	981,258	1,809,006
NET INCREASE IN CASH	1,255,934	120,445
Cash - Beginning of Year	541,239	420,794
CASH - END OF YEAR	$ 1,797,173	$ 541,239

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The United States Naval Institute (the Institute) is a nonprofit member association, with no government support, formed in 1873 to provide an independent forum for those who dare to read, think, speak, and write to advance the professional, literary, and scientific understanding of sea power and other issues critical to global security. The membership includes officers and enlisted personnel of all branches of the military services, officers of foreign navies, and United States and foreign citizens.

The Naval Institute Foundation, Inc. (the Foundation) was organized exclusively to raise funds for charitable and educational purposes to further the mission and policies of the United States Naval Institute. Funds raised are to be used as directed by the Foundation Board of Trustees.

The Trustees manage the business and affairs of the Foundation provided all action taken by the Foundation's Board shall be strictly in compliance with the policies of the Institute's Board of Directors. Therefore, the Foundation is included in the consolidated financial statements of the Institute as an affiliate.

Basis of Accounting

The Institute prepares its consolidated financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles as they pertain to not-for-profit organizations. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Consolidation Policy

The accompanying consolidated financial statements include the accounts of the United States Naval Institute and its affiliate, the Naval Institute Foundation, Inc. and are collectively referred to as the Institute. All significant transactions between the organizations, including all inter-organizational accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Institute 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.

Unrestricted net assets consist of funds currently available to support the Institute's operations. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets consist of the unspent portion of temporarily restricted contributions received by the Institute for various programs and investment income earned on permanently restricted contributions. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported as unrestricted support and expense.

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Institute maintains all of its cash in one commercial bank located in Charlotte, North Carolina. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Total cash held by the bank was $1,956,000 and $583,000 at December 31, 2017 and 2016, respectively.

Accounts Receivable and Allowance for Doubtful Amounts

Accounts receivable are customer obligations due under normal trade terms. The allowance for doubtful amounts is based on certain percentages of aged receivables, which are determined based on management's historical experience and assessment of the general financial conditions affecting the customer base.

If actual collections experience changes, revisions to the allowance may be required. A limited number of customers have individually large amounts due at any given date. Any unanticipated change in one of those customers' credit worthiness or other matters affecting the collectability of amounts due from such customers could have a material effect on the Institute's changes in net assets in the period in which such changes or events occur. An account is delinquent when payment is not received by the payment terms agreed to by the customer and the Institute. Payment terms vary by customer and are based on credit worthiness and history with the customer. The Institute does not charge interest to customers with account balances past due. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue.

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

The Institute uses the allowance method to determine the uncollectible amounts of contributions receivable. The allowance is based upon prior years' experience and management's analysis of subsequent collections.

As of December 31, 2017 and 2016, the Institute believes that the allowance for uncollectible amounts is adequate.

Inventory

Inventories are carried at the lower of cost or market, and are valued using the average cost method of inventory valuation. Included in inventory are costs of publications held for sale and production costs of publications not completed at year end.

The Institute has established an allowance for obsolete inventory based on management's analysis and prior sales history.

Investments

Investments are reported at fair value. Fair value is 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. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Net appreciation or depreciation in fair value of investments includes gains and losses on investments bought and sold as well as held during the year. Investment income or loss is included in the change in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

Endowment Fund Management Policy

The Foundation adopted the guidance for accounting and disclosure of endowment funds, which requires that the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the organization's governing board, must be retained permanently consistent with the relevant law.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at historical cost or, if donated, such assets are capitalized at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the following estimated useful lives:

Office facilities	10 - 30 years
Furniture and fixtures	3 - 10 years
Automobiles and equipment	3 - 10 years

The Institute capitalizes fixed assets with a useful life greater than one year and with an individual original cost of $3,000 or greater. When assets are sold or disposed of, the cost and corresponding accumulated depreciation and amortization are removed from the books with any gain or loss recognized currently. Expenditures for repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets

The Institute reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future 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 fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Income Taxes

The Institute and Foundation have been granted exemptions by the IRS from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The IRS has also determined that the Institute is not a private foundation. Separate tax returns are filed for the Institute and Foundation. The Institute and Foundation are required to report unrelated business income to the IRS and Maryland, as well as pay certain other taxes to local jurisdictions.

The Institute and Foundation adopted the guidance for accounting for uncertainty in income taxes. Management has determined that the Institute has no material uncertain tax positions that would require recognition under the guidance.

Publication Sales, Advertising Revenue, Subscriptions, and Membership Dues

Revenue from the sale of books is recognized at the time the sale occurs and the publications have been shipped to the customer. Royalties received in advance for publications and other receipts received in advance are deferred and recognized as revenue over the length of the royalty and other agreed upon terms. Advance royalties on unpublished manuscripts awaiting publication for books which offset future royalty payments when the manuscripts become part of a published product, or are expensed if abandoned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Publication Sales, Advertising Revenue, Subscriptions, and Membership Dues (Continued)

Advertising revenues are recognized in the period when advertising is printed or placed in Institute publications. Amounts received in advance of printing are deferred as liabilities.

Payments for Subscriptions received in advance are deferred and recognized as revenue over the length of the subscription terms.

Membership dues received in advance are deferred and recognized as revenue over the length of the membership term.

Contributions, Grants, and Donated Assets

Contributions, donated marketable securities, and other noncash donations received by the Foundation are presented at their fair values on the date of such gifts. Contributions are reported in accordance with the provisions of FASB ASC 958-605, which defines a contribution as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Description of Program and Supporting Services

The following programs and supporting services are included in the accompanying consolidated financial statements.

Publishing Costs

Includes costs of producing Proceedings which is an independent, open forum for articles from naval professionals and civilian contributors featuring current professional topics and issues. Also, Naval History magazine showcases historical topics with focus on the sea services. Additionally, the Naval Institute Press, which is the book-publishing arm of the Naval Institute publishes about seventy titles each year, ranging from books on navigation to battle histories, United States Naval Academy textbooks and reference books, biographies, ship and aircraft guides, and novels.

Conference Expenses

The Institute provides for various seminars and meetings throughout its fiscal year on current and historical topics. These meetings offer a concentrated opportunity for the exchange of ideas and discussion of key naval issues among naval professionals and others.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Royalties

Represent agreed-upon payments made by the Institute to various authors for their respective books. The amount of the royalty is based upon the actual sales of the respective books and any sales of subsidiary rights.

Special Projects

Represent various projects undertaken to advance the professional, literary, and scientific understanding of sea power and other issues critical to global security.

Other

Represent other expenses necessary to further the mission and policies of the Institute.

Administrative Costs

Includes the expenditures necessary to secure proper administrative functioning of the Institute including managing the financial and budgetary responsibilities of the Institute and supporting the Board of Directors.

Fundraising Expense

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Membership Development

Membership development activities include soliciting for prospective members, membership relations, and similar activities.

Financial Instruments and Credit Risk

Financial instruments, which potentially subject the Institute to concentration of risk, consist principally of cash and investments. The Institute places its cash and investments with creditworthy financial institutions. At times, cash balances may exceed federally insured limits. The Institute has not experienced any losses in such accounts. Risk with respect to investments is generally limited, because by policy, the investments are kept within limits.

Reclassification

Certain amounts in the prior period have been reclassified to conform to the current year's presentation. These reclassifications have no effect on previously reported net assets.

NOTE 2 INVESTMENTS

Investments consist of the following as of December 31:

	2017		2016	
	Cost	Market	Cost	Market
TIFF Multi-Asset Fund	$ 5,078,959	$ 4,965,174	$ 5,562,647	$ 5,514,531
Corporate Stock	765,546	2,532,712	765,546	2,559,062
Certificates of Deposit	40,474	40,474	38,708	38,708
Total	$ 5,884,979	$ 7,538,360	$ 6,366,901	$ 8,112,301

The following schedule summarizes the investment return for the years ended December 31:

	2017	2016
Investment Income	$ 284,543	$ 82,486
Realized/Unrealized Gain, Net	520,832	825,683
Total	$ 805,375	$ 908,169

Investment income is net of management fees amounting to $21,289 and $31,237 in 2017 and 2016, respectively.

NOTE 3 FAIR VALUE MEASUREMENT

In determining fair value, the Institute uses valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets to which the Institute has access.

Level 2
Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liabilities.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016:

TIFF Multi-Asset Fund
The foundation is invested in the TIFF Investment Program (TIP) Multi-Asset Fund (MAF), a no-load mutual fund available primarily to foundations, endowments, and other 501(c)(3) organizations. TIFF Advisory Services, Inc. (TAS) serves as the investment advisor to the funds. MAF operates primarily on a multi-manager basis, and TAS has responsibility for the task of selecting money managers and other vendors for the fund as well as asset allocation. TIFF's investment team and boards recently updated MAF's Constructed Index (CI), a blended benchmark and policy portfolio. TAS believes that the CI is a relevant performance benchmark for both short- and long-term periods.

The TAS and TIP boards view the CI, in general, as an appropriate long-term asset mix for non-profit organizations that seek to maintain the inflation-adjusted value of their assets while distributing 5% of these assets annually. The CI is also intended to help such organizations better assess MAF's performance by providing a comparison of the active strategies pursued by TAS and external managers versus the returns of relevant benchmarks. The current CI is a blended index comprised of the following three broad investment categories, weighted according to policy norms, with each category assigned a benchmark selected by TAS:

Equity-Oriented Assets, the primary long-term driver of portfolio returns, may include global equity, high yield bonds, resource-related equity, and REITs.

Diversifying Strategies, to generate meaningful returns while reducing equity market sensitivity, may include hedge funds, asset-backed securities, commodity futures, and opportunistic credit.

Fixed Income, to provide diversification, liquidity, and income, may include conventional bonds, TIPS, and cash.

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

Uncertainty and risk exists in that the fund may use leverage; invests in illiquid securities, non-US securities, small capitalization stocks, derivatives, and below investment grade bonds; and engages in short-selling. However, the Institute's exposure with respect to these investment activities is limited to its carrying amount in the investments. The Institute does not directly invest in the underlying securities of the investment funds, and due to restrictions on transferability and timing of withdrawals from the multi-asset fund, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions. These investments are classified within Level 2 of the valuation hierarchy.

There were no unfunded commitments, and the redemption frequency and notice period were daily for the TIFF Multi-Asset fund for the years ended December 31, 2017 and 2016.

Certificates of Deposit
Certificates of deposit are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type). The Institute's investments in certificates of deposit consist of securities earning a fixed interest rate with a maturity of longer than three months. The certificates of deposit are valued based on the cost of the security and the stated rate of interest the security is expected to yield. This investment is classified within Level 2 of the valuation hierarchy.

Corporate Stock
Corporate stocks listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. These investments are classified within Level 1 of the valuation hierarchy.

Below sets forth a table of assets measured at fair value as of December 31, 2017 and 2016.

	2017			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets and Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2017
Corporate Stock:	$ 2,532,712	$ -	$ -	$ 2,532,712
Certificates of Deposit	-	40,474	-	40,474
Mutual Funds:				
TIFF Multi-Asset Fund	-	4,965,174	-	4,965,174
Total	$ 2,532,712	$ 5,005,648	$ -	$ 7,538,360

NOTE 3 FAIR VALUE MEASUREMENT (CONTINUED)

	2016			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets and Liabilities in Active Markets (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2016
Corporate Stock:	$ 2,559,062	$ -	$ -	$ 2,559,062
Certificates of Deposit	-	38,708	-	38,708
Mutual Funds:				
TIFF Multi-Asset Fund	-	5,514,531	-	5,514,531
Total	$ 2,559,062	$ 5,553,239	$ -	$ 8,112,301

NOTE 4 INVENTORY

Inventory consists of the following at December 31:

	2017	2016
Publications Held for Sale	$ 3,094,873	$ 2,990,295
Prepublication Costs	90,383	111,031
	3,185,256	3,101,326
Less Allowance for Obsolete Inventory	994,557	875,000
Total	$ 2,190,699	$ 2,226,326

NOTE 5 CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable consist of the following at December 31:

	2017	2016
Unconditional Promises to Give	$ 1,068,209	$ 1,010,570
Less Allowance for Uncollectible Amounts	26,057	20,057
Net Unconditional Promises to Give	$ 1,042,152	$ 990,513
Amounts Due in:		
Less Than One Year	660,741	$ 612,913
One to Five Years	381,411	377,600
Total	$ 1,042,152	$ 990,513

The revenue related to multi-year unrestricted contributions receivable is classified as temporarily restricted revenue in the accompanying Consolidated Statements of Activities due to time restrictions.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2017	2016
Office Facilities	$ 3,178,589	$ 3,119,266
Computer Equipment and Software	2,231,045	2,180,461
Furniture, Fixtures and Office Equipment	545,637	542,030
Automobiles and Warehouse Equipment	-	20,807
	5,955,271	5,862,564
Less Allowance for Depreciation and Amortization	4,474,034	4,299,128
Total	$ 1,481,237	$ 1,563,436

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was $195,714 and $223,755, respectively.

NOTE 7 COMMITMENTS/CONTINGENCIES

Contract with Key Employees

The Institute has executed two employment contracts with key employees, which will continue unless terminated in accordance with the terms of the agreements. In the event of termination without cause, the Institute guarantees lump sum payments ranging from three months up to six months of the annual base salary plus a prorated amount of any annual performance bonus that would have been received in the fiscal year in which the employment was terminated.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

These net assets are restricted to the following purposes at December 31:

	2017	2016
Essay Contests	$ 2,471,436	$ 2,484,606
Conference Center	537,884	-
Naval Institute Press Subvention	408,042	511,371
Proceedings	658,735	398,065
Time Restricted Net Assets	212,635	269,053
Oral History	161,075	205,959
Other	312,808	154,815
Conferences	75,517	47,374
Technology	29,256	10,206
Total	$ 4,867,388	$ 4,081,449

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

These assets are restricted to the following purposes at December 31:

	2017	2016
General Program Support Endowments	$ 500,962	$ 500,962
Essay Contests Endowments	338,721	338,721
Oral History Endowment	124,237	124,237
Photo Archives Endowment	59,731	59,731
Other Program Endowments	36,000	36,000
Conference Endowment	-	2,721
Book Subvention Endowment	-	5,730
Total	$ 1,059,651	$ 1,068,102

NOTE 10 ENDOWMENT

The Institute's endowment consists of individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Institute has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) 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. Consequently, the Institute classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure per the transfer spending policy approved by the Institute's Board of Trustees. In accordance with MUPMIFA, the Institute considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds.

1. The duration and preservation of the fund
2. The purpose of the Institute and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Institute
7. The investment policies of the Institute

NOTE 10 ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters

The Institute has invested its endowment assets in a manner that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce approximately 5% greater than the rate of inflation as measured by the Consumer Price Index, and above the median of the Lipper Peer Universes. Actual returns in a given year may vary from this amount.

Spending Policies of the Endowments

The Institute has a spending policy of appropriating for distribution up to 5% of its total endowment balance over the calendar year. The earnings from the endowment shall be expended in a manner consistent with the terms under which the funds were provided or donated to the endowment.

In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Foundation expects the current spending policy will allow its endowment to retain the original fair value of the gift.

Endowment Net Asset Composition by Type of Fund as of December 31:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ -	$ -	$ 1,059,651	$ 1,059,651

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ -	$ -	$ 1,068,102	$ 1,068,102

The following table represents the changes in endowment net assets at December 31:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ -	$ 1,068,102	$ 1,068,102
Investment Return	77,609	87,861	-	165,470
Transfers		8,451	(8,451)	-
Appropriations of Endowment Assets for Expenditure	(77,609)	(96,312)	-	(173,921)
Total	$ -	$ -	$ 1,059,651	$ 1,059,651

NOTE 10 ENDOWMENT (CONTINUED)

Spending Policies of the Endowments (Continued)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ -	$ 1,068,102	$ 1,068,102
Investment Return	28,735	32,531	-	61,266
Appropriations of Endowment Assets for Expenditure	(28,735)	(32,531)	-	(61,266)
Total	$ -	$ -	$ 1,068,102	$ 1,068,102

NOTE 11 PENSION PLAN

The Institute has responsibility for a legacy defined benefit pension plan (the Plan) that covers certain of its employees who worked at the Institute prior to 2003. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and compensation rates near retirement. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as benefits expected to be earned in the future. Plan assets consist of fixed-income funds.

The Institute's funding policy is to make contributions to the extent required by the Employee Retirement Income Security Act.

The Plan was amended to freeze benefits accrued thereunder as of June 1, 2003. No further benefits shall accrue to participants and no employee of the Institute who was not already a participant in the Plan as of June 1, 2003 shall become a participant after that date. The Institute is in the middle of a five year plan to wind down the pension plan, with the Plan filing for termination in 2019.

The following is a summary of the funded status of the Plan as of December 31, the key assumptions used by the Plan's actuary, and the cost to the Institute of providing retirement benefits.

Change in Benefit Obligations

	2017	2016
Benefit Obligation, Beginning of Year	$ (7,031,792)	$ (10,044,399)
Interest Cost	(301,959)	(446,120)
Actuarial (Loss) Gain	(73,542)	128,864
Actual Distributions	1,849,694	3,861,530
Settlement (Loss)	(81,629)	(531,667)
Benefit Obligation, End of Year	$ (5,639,228)	$ (7,031,792)

NOTE 11 PENSION PLAN (CONTINUED)

Change in Plan Assets

	2017	2016
Plan Assets at Fair Value at Beginning of Year	$ 5,075,141	$ 7,044,539
Actual Return on Plan Assets	87,602	130,132
Actual Employer Contributions	630,000	1,762,000
Settlement - Amount Paid	(1,474,386)	(3,252,839)
Actual Distributions	(375,308)	(608,691)
Plan Assets at Fair Value at Year End	$ 3,943,049	$ 5,075,141
Unfunded Pension Obligation	$ (1,696,179)	$ (1,956,651)

Components of net periodic pension benefit cost:

	2017	2016
Interest Cost	$ 301,959	$ 446,120
Expected Return on Plan Assets	(246,997)	(442,612)
Amortization of Net Loss	403,671	478,211
Net Period Pension Cost	$ 458,633	$ 481,719

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate used in determining its year-end pension accounting is reasonable based on current available information provided by an independent actuarial firm. The expected rate of return on plan assets is determined by the plan assets' historical long-term returns by asset class. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

Weighted average assumptions used to determine the benefit obligation and net periodic benefit cost are as follows for the years ended December 31:

	2017	2016
Benefit Obligation:		
Discount Rate	3.95%	4.35%
Expected Return on Plan Assets	6.50%	6.50%
Net Periodic Benefit Cost:		
Discount Rate	4.35%	4.50%
Expected Return on Plan Assets	5.00%	6.50%

Contributions

The Institute expects to make at least the minimum contribution of $124,436 to the pension plan in fiscal year 2018.

NOTE 11 PENSION PLAN (CONTINUED)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the years ended December 31:

2018	$ 310,129
2019	324,312
2020	339,737
2021	344,706
2022	347,293
Thereafter	1,774,939
Total	$ 3,441,116

Plan Assets

The Plan's weighted average asset allocations by asset category are as follows at December 31:

	2017	2016
Mutual Funds	97.0%	99.0%
Cash and Equivalents	3.0%	1.0%
Total	100.0%	100.0%

Because the Institute is currently in year four of a five year plan to terminate its Plan, with the approval of the Board of Directors, they currently utilize a target allocation of 95% fixed income mutual funds and 5% interest-bearing cash. Barring any unforeseen market changes, the target allocation will not change significantly in the future.

The fair values of the Institute's pension plan assets at December 31, 2017, by asset category are as follows:

Mutual funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. The Plan's interests in such investments are categorized as mutual funds. Such securities are classified within Level 1 of the valuation hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2017.

	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 3,943,049	$ -	$ -	$ 3,943,049
Total Assets at Fair Value	$ 3,943,049	$ -	$ -	$ 3,943,049

NOTE 11 PENSION PLAN (CONTINUED)

Defined Contribution Plan

Upon freezing the above mentioned defined benefit plan in 2003, the Institute initiated a defined contribution 403(b) plan available to employees in which it matches 50% of participating employees' contributions up to 6% of eligible compensation. During 2017 and 2016, the Institute's share of contributions to this Plan was $102,269 and $84,806, respectively.

NOTE 12 CONCENTRATIONS

The Foundation received a significant amount of its contributions from a concentrated number of donors in both 2017 and 2016. One donors' contributions comprised 44% of total contribution revenue for the year ended December 31, 2017. Two donors' contributions comprised 38% of total contribution revenue for the year ended December 31, 2016.

NOTE 13 SUBSEQUENT EVENTS

Management evaluated subsequent events through May 8, 2018, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to May 8, 2018, that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the year ended December 31, 2017.

NOTE 14 CORRECTION OF TEMPORARILY RESTRICTED ASSETS

During the financial statement preparation for the year ended December 31, 2017, it was noticed that certain earnings on invested funds previously classified as temporarily restricted should have been classified as unrestricted. There was no net effect on total net assets as of the years ended December 31, 2017 and 2016.