

The Admiral Nimitz Foundation

Financial Statements
and Supplemental Information

December 31, 2012 and 2011

The Admiral Nimitz Foundation

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Independent Auditor's Report

To the Board of Directors
The Admiral Nimitz Foundation
Fredericksburg, Texas

Report on the Financial Statements

We have audited the accompanying statements of financial position of The Admiral Nimitz Foundation, which comprise the balance sheet as of December 31, 2012, and the related statements of activities and net assets and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Admiral Nimitz Foundation as of December 31, 2012, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Admiral Nimitz Foundation as of and for the year ended December 31, 2011 were audited by other auditors whose report, dated April 18, 2012, expressed an unqualified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the year ended December 31, 2012 as a whole. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information for the year ended December 31, 2012 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the year ended December 31, 2012 is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental information for the year ended December 31, 2011, was audited by other auditors whose report, dated April 18, 2012, expressed an unqualified opinion on such information in relation to the financial statements as a whole.

Pedgett, Statham & Co., L.L.P.

Certified Public Accountants
May 13, 2013

The Admiral Nimitz Foundation

Statements of Financial Position

December 31, 2012 and 2011

Assets

Current Assets	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,461,200	\$ 502,242
Investments (see notes 2 and 3)	3,733,211	3,202,602
Receivables:		
Accounts receivable	61,446	90,978
Current portion of unconditional promises to give – net of allowance for uncollectible contributions of \$6,000 for 2012 and 2011 (see note 4)	943,496	356,630
Inventory	268,741	239,438
Prepaid expenses	<u>13,044</u>	<u>27,263</u>
Total current assets	6,481,138	4,419,153
Property and Equipment – net (see note 5)	2,388,961	2,334,125
Unconditional Promises to Give – net of current portion (see note 4)	<u>1,432,818</u>	<u>317,030</u>
	<u><u>\$ 10,302,917</u></u>	<u><u>\$ 7,070,308</u></u>

Notes to financial statements form an integral part of these statements.

Liabilities and Net Assets

Current Liabilities	<u>2012</u>	<u>2011</u>
Accounts payable	\$ 285,984	\$ 294,474
Accrued liabilities	20,129	8,150
Deferred revenue	48,942	88,372
Current portion of long-term notes payable (see note 6)	<u>86,711</u>	<u>86,384</u>
Total current liabilities	441,766	477,380
Long-Term Notes Payable – less current maturities (see note 6)	<u>999,414</u>	<u>1,443,931</u>
Total liabilities	<u>1,441,180</u>	<u>1,921,311</u>
 Net Assets		
Unrestricted net assets:		
Undesignated	1,918,177	1,327,114
Board designated:		
Foundation Endowment (see note 7 and 11)	609,222	515,002
Museum Endowment (see note 7 and 11)	<u>3,455,544</u>	<u>2,778,276</u>
	5,982,943	4,620,392
Temporarily restricted net assets (see note 8)	2,768,294	472,605
Permanently restricted net assets (see note 9 and 11)	<u>110,500</u>	<u>56,000</u>
Total net assets	<u>8,861,737</u>	<u>5,148,997</u>
	\$ 10,302,917	\$ 7,070,308

The Admiral Nimitz Foundation

Statements of Activities and Net Assets

Years Ended December 31, 2012 and 2011

Unrestricted Net Assets	<u>2012</u>	<u>2011</u>
Revenue, gains, and other support:		
Contributions	\$ 405,591	\$ 307,502
Grants	125,000	100,000
General admissions	989,439	999,035
Membership dues	206,965	233,428
Memorial Wall and Veterans Walk	124,738	108,924
Facility and other rentals	86,949	76,295
Special events and projects – less directly related donor benefit expenses of \$208,301 and \$185,918 in 2012 and 2011, respectively	322,425	152,088
Fundraising contract receipts	884,158	816,258
Retail sales – Nimitz Bookstore and Museum Store	509,404	559,120
Interest and dividends	93,976	236,038
Realized and unrealized gain (loss) on investments	280,364	(224,778)
Other income	9,488	915
Net assets released from restrictions	<u>926,510</u>	<u>582,797</u>
Total revenue, gains, and other support	<u>4,965,007</u>	<u>3,947,622</u>
Expenses:		
Program services:		
Museum operating	1,481,222	1,211,059
Memberships	49,562	48,260
Memorial Wall and Veterans Walk	44,641	32,054
Retail and rentals	547,828	606,215
Support services:		
Foundation operating	1,401,423	1,271,818
Fundraising	<u>77,780</u>	<u>137,894</u>
Total expenses	<u>3,602,456</u>	<u>3,307,300</u>
Change in unrestricted net assets	<u>1,362,551</u>	<u>640,322</u>

Notes to financial statements form an integral part of these statements.

The Admiral Nimitz Foundation
Statements of Activities and Net Assets
Years Ended December 31, 2012 and 2011

(Continued)

Temporarily Restricted Net Assets	<u>2012</u>	<u>2011</u>
Contributions	\$ 3,219,817	\$ 1,044,283
Interest income	2,382	859
Net assets released from restrictions	<u>(926,510)</u>	<u>(582,797)</u>
Change in temporarily restricted net assets	<u>2,295,689</u>	<u>462,345</u>
 Permanently Restricted Net Assets		
Contributions	<u>54,500</u>	<u>3,000</u>
Change in permanently restricted net assets	<u>54,500</u>	<u>3,000</u>
Change in net assets	3,712,740	1,105,667
 Net assets at beginning of year	<u>5,148,997</u>	<u>4,043,330</u>
Net assets at end of year	<u><u>\$ 8,861,737</u></u>	<u><u>\$ 5,148,997</u></u>

Notes to financial statements form an integral part of these statements.

The Admiral Nimitz Foundation

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 3,712,740	\$ 1,105,667
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	58,628	53,978
Net realized and unrealized (gains) losses on investments	(280,364)	224,778
Changes in:		
Accounts receivable	29,532	(15,973)
Unconditional promises to give	(1,702,654)	(190,828)
Inventory	(29,303)	32,731
Prepaid expenses	14,219	(4,141)
Accounts payable and accrued liabilities	3,489	(35,341)
Deferred revenue	(39,430)	2,750
Net cash provided by operating activities	<u>1,766,857</u>	<u>1,173,621</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(113,464)	(1,546,732)
Purchase of investments	(3,523,399)	(844,130)
Proceeds from sales of investments	3,273,154	-
Net cash used in investing activities	<u>(363,709)</u>	<u>(2,390,862)</u>
Cash Flows From Financing Activities		
Proceeds from long-term debt	-	1,150,000
Payments on long-term debt	(444,190)	(161,430)
Net cash provided by (used in) financing activities	<u>(444,190)</u>	<u>988,570</u>
Net increase (decrease) in cash and cash equivalents	958,958	(228,671)
Cash and cash equivalents at beginning of year	<u>502,242</u>	<u>730,913</u>
Cash and cash equivalents at end of year	<u>\$ 1,461,200</u>	<u>\$ 502,242</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 68,520</u>	<u>\$ 63,700</u>

Notes to financial statements form an integral part of these statements.

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization

The Admiral Nimitz Foundation (the "Foundation") was originally formed in 1964 to support a museum in Fredericksburg, Texas, to honor Fleet Admiral Chester W. Nimitz and the men and women who served with him. Effective November 1, 2005, the Foundation entered into an agreement with the Texas Historical Commission ("THC") to operate the National Museum of the Pacific War (the "Museum"), including the George H. W. Bush Gallery, the Pacific Combat Zone, the Memorial Courtyard, the Japanese Garden of Peace, the Plaza of the Presidents, and the Admiral Nimitz Museum.

National Museum of the Pacific War Collection and Buildings

The George H. W. Bush Gallery, the Admiral Nimitz Museum, and the Pacific Combat Zone buildings are owned by THC and, therefore, are not recognized as assets of the Foundation on the statements of financial position. Buildings that are recognized as assets of the Foundation include the Nauwald Building, the Ruff House, one home, and one office.

The Museum collection is also owned by THC and is not recognized as an asset of the Foundation on the statements of financial position. Additionally, any collection objects purchased or donated to the Foundation are not included in the statements of financial position, in conformity with the practice followed by many museums, in which acquisition of an object is expensed in the year of purchase or donation.

During 2009, the Foundation expended \$12,700,000 of the total \$15,700,000 for the construction of the expanded George H. W. Bush Gallery and exhibits. Construction was completed in 2010 and ownership will be transferred to THC when final compliance with museum standards regarding climate control has been verified. This is expected to occur in 2013.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Under these provisions, net assets and revenue, expenses, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria.

Unrestricted Net Assets – Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the “Board”).

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets consist of net assets that are subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Cash Equivalents

For financial statement purposes, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the statements of financial position. Unrealized gains and losses are included in the statements of activities and net assets.

The Foundation has an investment policy that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable primarily consist of reimbursements from THC and rental receivables and are recorded as receivable and revenue in the period earned.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. No allowance deemed necessary at December 31, 2012 and 2011.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is unconditional and are recorded at net realizable value. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

Inventory

Nimitz Bookstore and Museum Store inventory is recorded at the lower of cost (first-in, first-out method) or market (net realizable value).

Depreciation and Amortization

Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives: buildings and improvements – 10 to 39 years; equipment – 3 to 10 years; furniture and fixtures – 10 years; and website – 5 years. The Foundation has adopted a capitalization policy for property and equipment of \$3,000.

Impairment of Long-Lived Assets

The Foundation reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Impairment of Long-Lived Assets (continued)

management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Foundation did not recognize an impairment loss during the years ended December 31, 2012 and 2011.

Federal Income Tax

The Foundation is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying financial statements.

The Foundation's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At December 31, 2012 and 2011, no interest or penalties have been or are required to be accrued. The Foundation, generally, is no longer subject to income tax examinations by federal authorities for years prior to December 31, 2008.

Public Support and Revenue

Contributions are recorded at fair value when the Foundation is in possession of or receives an unconditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Foundation's policy is to report restricted support that is satisfied in the year of receipt as restricted and then fully released in the same year.

Unconditional promises to give, or pledges, are recorded in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise is made and received. Pledges receivable are discounted to an estimated present value.

Contributed services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed goods are recorded at their fair value in the period received.

Membership revenue is recognized as revenue on the straight-line basis over the related membership period. Deferred revenue consists of monies received for work-in-progress on the Memorial Wall and Veterans Walk plaques, as well as deposits for rental facilities.

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Grants and Contracts

The Foundation considers all government grants and contracts as exchange transactions rather than contributions. The Foundation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Foundation, but which will only be resolved when one or more future events occur or fail to occur. The Foundation's management and Executive Committee assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. The Executive Committee will consult with legal counsel as necessary. In assessing loss contingencies related to legal proceedings that are pending against the Foundation or unasserted claims that may result in such proceedings, the Foundation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Foundation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Subsequent Events

The Foundation has evaluated subsequent events through May 13, 2013, the date the financial statements were available to be issued.

The Admiral Nimitz Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Reclassification

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation.

2. Fair Value Measurements and Disclosures

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market of the investment at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Admiral Nimitz Foundation

Notes to Financial Statements

2. Fair Value Measurements and Disclosures (continued)

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following table represents assets measured at fair value on a recurring basis as reported on the statements of financial position as of December 31, 2012 and 2011 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at December 31, 2012	Level 1	Level 2	Level 3
Assets:				
Equities	\$ 1,005,397	\$ 1,005,397	\$ -	\$ -
Mutual funds	<u>2,727,814</u>	<u>2,727,814</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,733,211</u>	<u>\$ 3,733,211</u>	<u>\$ -</u>	<u>\$ -</u>
	Total Fair Value Measurement at December 31, 2011	Level 1	Level 2	Level 3
Assets:				
Certificates of deposit	\$ 54,144	\$ 54,144	\$ -	\$ -
San Antonio Area Foundation Pooled Funds	<u>3,148,458</u>	<u>-</u>	<u>3,148,458</u>	<u>-</u>
	<u>\$ 3,202,602</u>	<u>\$ 54,144</u>	<u>\$ 3,148,458</u>	<u>\$ -</u>

Investments are classified within Level 1 of the valuation hierarchy, with the exception in 2011 of San Antonio Area Foundation Pooled Funds that are classified within Level 2. The Foundation obtains fair value measurements for investment securities from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions, and other such data.

The Admiral Nimitz Foundation

Notes to Financial Statements

3. Investments

Investments consist of the following:

	December 31, 2012		
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Unrealized Appreciation</u>
Equities	\$ 968,440	\$ 1,005,397	\$ 36,957
Mutual funds	<u>2,557,703</u>	<u>2,727,814</u>	<u>170,111</u>
	<u>\$ 3,526,143</u>	<u>\$ 3,733,211</u>	<u>\$ 207,068</u>

	December 31, 2011		
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Unrealized Depreciation</u>
San Antonio Area Foundation Pooled Funds	\$ <u>3,280,307</u>	\$ <u>3,148,458</u>	\$ <u>(131,849)</u>

Investment income consists of the following:

	Year Ended December 31, 2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 93,976	\$ 2,382	\$ -	\$ 96,358
Realized and unrealized gains – net	280,364	-	-	280,364
Investment expenses	<u>(25,741)</u>	<u>-</u>	<u>-</u>	<u>(25,741)</u>
	<u>\$ 348,599</u>	<u>\$ 2,382</u>	<u>\$ -</u>	<u>\$ 350,981</u>

The Admiral Nimitz Foundation

Notes to Financial Statements

3. Investments (continued)

	Year Ended December 31, 2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 236,038	\$ 859	\$ -	\$ 236,897
Realized and unrealized gains – net	(224,778)	-	-	(224,778)
Investment expenses	<u>(12,218)</u>	<u>-</u>	<u>-</u>	<u>(12,218)</u>
	<u>\$ (958)</u>	<u>\$ 859</u>	<u>\$ -</u>	<u>\$ (99)</u>

4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
Gross amounts due in:		
One year or less	\$ 949,496	\$ 362,630
One to five years	<u>1,432,818</u>	<u>317,030</u>
Total unconditional promises to give	2,382,314	679,660
Less allowance for uncollectible promises	<u>(6,000)</u>	<u>(6,000)</u>
Net conditional promises to give	<u>\$ 2,376,314</u>	<u>\$ 673,660</u>

Management believes that discounting the carrying value of pledges receivable, to be collected in future years, to present value is considered immaterial to these financial statements.

The Admiral Nimitz Foundation

Notes to Financial Statements

5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
Land	\$ 516,483	\$ 516,483
Buildings and improvements	1,849,052	1,786,698
Equipment	149,311	134,852
Furniture and fixtures	62,709	26,058
Website	<u>20,537</u>	<u>20,537</u>
	2,598,092	2,484,628
Less accumulated depreciation and amortization	<u>209,131</u>	<u>150,503</u>
	<u>\$ 2,388,961</u>	<u>\$ 2,334,125</u>

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 totaled \$58,628 and \$53,978, respectively.

6. Long-Term Notes Payable

Long-term notes payable consists of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
On December 8, 2010, the Foundation obtained a real estate loan in the amount of \$200,000 secured by the property at 207 North Elk Street. The loan has an interest rate of 5% (prime rate plus 0%; however, never below 5%). The balance is payable in monthly installments of principal and interest of \$1,328. The remaining balance is due in full on December 8, 2031.	\$ 187,658	\$ 193,570
On July 8, 2011, the Foundation obtained a bank loan of \$800,000 secured by property. Principal is to be paid at a rate of \$80,000 annually on July 8, with interest payable quarterly at 5%. Total remaining principal is due July 8, 2016.	548,467	800,000

The Admiral Nimitz Foundation

Notes to Financial Statements

6. Long-Term Notes Payable (continued)

	December 31,	
	<u>2012</u>	<u>2011</u>
On September 15, 2011, the Foundation obtained an unsecured loan of \$311,745. Principal is to be paid in one payment of \$311,745, plus interest. The variable interest rate is subject to change from time to time based on changes in an independent index, which is the prime rate, which matured on September 15, 2012.	\$ -	\$ 186,745
On July 8, 2011, the Foundation obtained unsecured loans from private individuals (one related party) totaling \$350,000. The loans are payable, interest only, annually at a fixed 5% rate, with total principal due on July 8, 2016.	<u>350,000</u>	<u>350,000</u>
	<u>1,086,125</u>	1,530,315
Less current maturities	<u>86,711</u>	<u>86,384</u>
	<u>\$ 999,414</u>	<u>\$ 1,443,931</u>

Aggregate maturities on long-term debt at December 31, 2012 are as follows:

Year ending December 31,	
2013	\$ 86,711
2014	87,054
2015	87,415
2016	437,795
2017	88,194
Thereafter	<u>298,956</u>
	<u>\$ 1,086,125</u>

Interest expense totaled approximately \$68,500 and \$63,700 for the years ended December 31, 2012 and 2011, respectively.

The Admiral Nimitz Foundation

Notes to Financial Statements

7. Unrestricted Board-Designated Net Assets

The Foundation Endowment was established by the Foundation's Board to invest certain contributed funds. Income earned from the investments is to be used to help ensure the future operations of the Foundation. To date, the Foundation Endowment includes unrestricted contributions to honor various individuals. These funds are invested as detailed in note 2. Future contributions to the Foundation Endowment will be added to it, as deemed necessary by the Board.

The Museum Endowment was created by the Foundation's Board on October 30, 1995. Income from the fund is to provide for the Foundation's obligation to THC for the operation of the National Museum of the Pacific War, a facility of THC. These funds are invested as detailed in note 2. Future contributions to the Museum Endowment will be added, as deemed necessary by the Board.

Unrestricted Board-designated net assets consist of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
Foundation Endowment	\$ 609,222	\$ 515,002
Museum Endowment	<u>3,455,544</u>	<u>2,778,276</u>
	<u>\$ 4,064,766</u>	<u>\$ 3,293,278</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
Memorial Wall	\$ 4,513	\$ 6,641
Sons and Daughters of World War II	10,425	5,975
Nimitz Education and Research Center	112,591	12,591
Ruff House	442,846	252,250
Tour Mate	-	35,070
Trees and benches	13,174	13,415
Nauwald Building	79,495	135,668
Pacific Combat Zone renovation	27,500	10,000
General use/time restriction	2,060,000	-
Living History and other	<u>17,750</u>	<u>995</u>
	<u>\$ 2,768,294</u>	<u>\$ 472,605</u>

The Admiral Nimitz Foundation

Notes to Financial Statements

8. Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	December 31,	
	<u>2012</u>	<u>2011</u>
Memorial Wall	\$ 2,128	\$ 2,052
Phase III construction	-	8,050
Nimitz Education and Research Center	181,932	22,409
Ruff House	290,704	417,250
Tour Mate	35,070	6,930
Trees and benches	241	823
Combat Zone bleachers	-	10,000
Nauwald Building	89,173	47,332
Other	327,262	67,951
	<u>\$ 926,510</u>	<u>\$ 582,797</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	December 31,	
	<u>2012</u>	<u>2011</u>
Memorial Wreath Endowment	\$ 60,500	\$ 56,000
McDougall Endowment	50,000	-
	<u>\$ 110,500</u>	<u>\$ 56,000</u>

10. Fundraising Contract

The Foundation entered into an agreement with Fund Raising Strategies, Inc. This contract is for a direct mail program that includes a newsletter urging participation in programs at the Museum, along with solicitations for donations. This agreement is automatically renewed annually, unless prior notice is given to cancel. Gross receipts from this contract totaled \$884,158 and \$816,258 for 2012 and 2011, respectively, and are presented as fundraising contract receipts on the statement of activities. Cost for this service is included in Foundation program and fundraising expenses. Direct expenses for program and fundraising activities related to this contract totaled \$729,607 and \$21,563 for 2012 and \$506,111 and \$97,147 for 2011, respectively.

The Admiral Nimitz Foundation

Notes to Financial Statements

11. Endowments

The Foundation maintains endowment funds established for the benefit of the Foundation and the Museum. The endowment funds include both donor-restricted funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including board-designated endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The donor restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006, which was adopted by the state of Texas with an effective date of September 1, 2007.

Interpretation of Relevant Law

The Board has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, the Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Admiral Nimitz Foundation

Notes to Financial Statements

11. Endowments (continued)

Interpretation of Relevant Law (continued)

The endowment net asset composition by type of fund is comprised of the following:

December 31, 2012	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,513	\$ 110,500	\$ 115,013
Board-designated endowment funds	<u>4,064,766</u>	<u>-</u>	<u>-</u>	<u>4,064,766</u>
	<u>\$ 4,064,766</u>	<u>\$ 4,513</u>	<u>\$ 110,500</u>	<u>\$ 4,179,779</u>
December 31, 2011	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,641	\$ 56,000	\$ 62,641
Board-designated endowment funds	<u>3,293,278</u>	<u>-</u>	<u>-</u>	<u>3,293,278</u>
	<u>\$ 3,293,278</u>	<u>\$ 6,641</u>	<u>\$ 56,000</u>	<u>\$ 3,355,919</u>

The Foundation had the following changes in endowment net assets:

December 31, 2012	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 3,293,278	\$ 6,641	\$ 56,000	\$ 3,355,919
Investment return:				
Investment income	92,942	2,382	-	95,324
Net appreciation	278,420	-	-	278,420
Contributions	288,025	-	54,500	342,525
Payment on pledges	137,380	-	-	137,380
Amounts appropriated for expenditures	<u>(25,279)</u>	<u>(4,510)</u>	<u>-</u>	<u>(29,789)</u>
Endowment net assets at end of year	<u>\$ 4,064,766</u>	<u>\$ 4,513</u>	<u>\$ 110,500</u>	<u>\$ 4,179,779</u>

The Admiral Nimitz Foundation

Notes to Financial Statements

11. Endowments (continued)

Interpretation of Relevant Law (continued)

December 31, 2011	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 2,529,966	\$ 7,833	\$ 53,000	\$ 2,590,799
Investment return:				
Investment income	233,540	860	-	234,400
Net depreciation	(224,778)	-	-	(224,778)
Contributions	766,768	-	3,000	769,768
Amounts appropriated for expenditures	<u>(12,218)</u>	<u>(2,052)</u>	<u>-</u>	<u>(14,270)</u>
Endowment net assets at end of year	<u>\$ 3,293,278</u>	<u>\$ 6,641</u>	<u>\$ 56,000</u>	<u>\$ 3,355,919</u>

Amounts of donor-restricted endowment funds classified as permanently restricted net assets consist of the following:

	<u>December 31, 2012</u>	<u>2011</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	<u>\$ 110,500</u>	<u>\$ 56,000</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 110,500</u>	<u>\$ 56,000</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as unrestricted net assets. There were no such deficiencies as of December 31, 2012 and 2011.

The Admiral Nimitz Foundation

Notes to Financial Statements

11. Endowments (continued)

Return Objectives and Risk Parameters

The Foundation has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-restricted assets or for donor-specified period(s), as well as board-designated funds. Endowment investments are managed by professional investment managers under the direction of the Board. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices, while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

12. Donated Services

Donated services are reflected as contribution revenue at their estimated fair value at the date of receipt and are expended or capitalized as appropriate. Such services are used by the Foundation's program and administration. Contributed services had an estimated fair value of \$3,511 for the year ended December 31, 2011. No such donated services were received for the year ended December 31, 2012.

13. Employee Retirement Plan

The Foundation established a defined contribution retirement plan with The Vanguard Group effective June 1, 2006. Salaried employees with over six months of employment are eligible to participate. The investments of the plan are employee directed. The Foundation matched 1.5% of participating employee's annual salary as a contribution for the years ending December 31, 2012 and 2011. Retirement plan expenses totaled \$5,578 and \$5,050 for the years ended December 31, 2012 and 2011, respectively.

The Admiral Nimitz Foundation

Notes to Financial Statements

14. Commitments and Contingencies

Significant Concentrations

The Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Accounts are guaranteed by the federal Deposit Insurance Corporation up to a maximum of \$250,000. The Foundation has not experienced any losses in such accounts.

At December 31, 2012, one receivable for admissions not yet transferred from THC comprised 79% of total accounts receivable, and four individual pledges compromised 85% of total pledges receivable. Management has reviewed the accounts for collectability and believes the receivables to be substantially collectable based on history of collection.

At December 31, 2011, one receivable for admissions not yet transferred from THC comprised 53% of total accounts receivable, and three individual pledges compromised 96% of the total pledges receivable. Management has reviewed the accounts for collectability and believes the receivables to be substantially collectable based on history of collection.

Texas Historical Commission ("THC") Agreement

Effective November 1, 2005, the Foundation entered into an agreement, for the period through August 31, 2009, with THC to operate the Museum. The agreement is renewable in 5-year increments for a total of 20 years beyond August 31, 2009. The option to renew until August 31, 2014 was exercised. According to the agreement, the Foundation is required to allow a seat on its Board to be filled by an individual selected by THC.

THC will remain the employer of all current state employees. As state employees retire, or are terminated, the Foundation is responsible for replacing the employees with new hires, to work at the Museum, and all such hires will be direct employees of the Foundation. At December 31, 2012 and 2011, there were three and four state employees remaining, respectively. THC supported the Museum in the amount of \$182,341 for the fiscal period of September 1, 2011 through August 31, 2012 and \$212,223 for the fiscal period of September 1, 2010 through August 31, 2011, respectively, which was used to pay state employees' salaries until fully expended. This amount is netted with salaries expense on the statement of activities. At that time, sufficient amounts to cover personnel costs were deducted from admission income. Subsequent years' support will be determined by the current legislatures. The Foundation has a contingent liability to meet all expenses for operation from the support and income generated for the term of the operating agreement.

Supplemental Information

The Admiral Nimitz Foundation

Schedule of Functional Expenses

December 31, 2012

	Program Services				Support Services			Total	
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals	Total Program Services	Foundation Operating	Fundraising		Total Support Services
Salaries and related expenses:									
Salaries	\$ 516,008	\$ -	\$ -	\$ 213,251	\$ 729,259	\$ 301,838	\$ 45,248	\$ 347,086	\$ 1,076,345
Payroll taxes	50,985	-	-	21,569	72,554	26,923	4,036	30,959	103,513
Employee benefits	94,650	-	-	22,894	117,544	24,403	6,933	31,336	148,880
Total salaries and related expenses	661,643	-	-	257,714	919,357	353,164	56,217	409,381	1,328,738
Expenses:									
Computer	5,331	-	-	566	5,897	28,598	810	29,408	35,305
Cost of goods sold	-	-	-	231,345	231,345	-	-	-	231,345
Credit card fees	8,565	-	-	19,053	27,618	8,698	-	8,698	36,316
Dues and subscriptions	3,118	-	-	859	3,977	575	-	575	4,552
Educational programs	571	-	-	-	571	-	-	-	571
Exhibits and collections	105,059	-	-	-	105,059	-	-	-	105,059
Information technology	34,198	-	-	-	34,198	24,762	-	24,762	58,960
Insurance	14,000	-	-	6,200	20,200	6,171	-	6,171	26,371
Interest	-	-	-	-	-	68,520	-	68,520	68,520
Investment fees	21,533	-	337	-	21,870	3,871	-	3,871	25,741
Marketing	116,133	5,565	-	6,891	128,589	173,779	6,463	180,242	308,831
Memorial programs	-	-	44,304	-	44,304	-	-	-	44,304
Miscellaneous	-	-	-	-	-	670	682	1,352	1,352
Museum enhancements	219,417	-	-	-	219,417	-	-	-	219,417
Office supplies	9,764	-	-	1,567	11,331	5,438	600	6,038	17,369
Postage and freight	145	11,513	-	778	12,436	295,541	-	295,541	307,977
Printing and publications	4,113	32,484	-	-	36,597	179,224	-	179,224	215,821
Professional fees	8,265	-	-	4,000	12,265	87,231	13,008	100,239	112,504
Property costs	-	-	-	-	-	24,709	-	24,709	24,709
Repairs and maintenance	59,323	-	-	877	60,200	565	-	565	60,765
Storage and rentals	-	-	-	213	213	-	-	-	213
Strategic initiatives	-	-	-	-	-	70,862	-	70,862	70,862
Supplies	33,723	-	-	4,727	38,450	4	-	4	38,454
Telephone	29,043	-	-	406	29,449	7,997	-	7,997	37,446
Travel	17,113	-	-	1,463	18,576	1,043	-	1,043	19,619
Utilities	117,557	-	-	6,017	123,574	2,281	-	2,281	125,855
Website	7,082	-	-	-	7,082	9,770	-	9,770	16,852
Total expense before depreciation	1,475,696	49,562	44,641	542,676	2,112,575	1,353,473	77,780	1,431,253	3,543,828
Depreciation	5,526	-	-	5,152	10,678	47,950	-	47,950	58,628
Total expenses	\$ 1,481,222	\$ 49,562	\$ 44,641	\$ 547,828	\$ 2,123,253	\$ 1,401,423	\$ 77,780	\$ 1,479,203	\$ 3,602,456

The Admiral Nimitz Foundation

Schedule of Functional Expenses

December 31, 2011

	Program Services				Support Services			Total	
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals	Total Program Services	Foundation Operating	Fundraising		Total Support Services
Salaries and related expenses:									
Salaries	\$ 429,195	\$ -	\$ -	\$ 224,044	\$ 653,239	\$ 332,005	\$ 34,545	\$ 366,550	\$ 1,019,789
Payroll taxes	41,232	-	-	21,865	63,097	29,047	3,079	32,126	95,223
Employee benefits	52,897	-	-	18,440	71,337	20,037	3,123	23,160	94,497
Total salaries and related expenses	523,324	-	-	264,349	787,673	381,089	40,747	421,836	1,209,509
Expenses:									
Computer	2,099	-	-	1,310	3,409	19,559	4,892	24,451	27,860
Cost of goods sold	-	-	-	289,368	289,368	-	-	-	289,368
Credit card fees	12,267	-	-	17,394	29,661	7,084	-	7,084	36,745
Dues and subscriptions	2,222	-	-	665	2,887	500	-	500	3,387
Educational programs	2,901	-	-	-	2,901	-	-	-	2,901
Exhibits and collections	60,119	-	-	-	60,119	2,052	-	2,052	62,171
Information technology	47,887	-	-	-	47,887	34,402	-	34,402	82,289
Insurance	13,906	-	-	6,200	20,106	6,096	-	6,096	26,202
Interest	-	-	-	-	-	80,635	-	80,635	80,635
Investment fees	10,164	-	-	-	10,164	2,054	-	2,054	12,218
Marketing	114,559	4,966	-	5,482	125,007	68,870	9,127	77,997	203,004
Memorial programs	-	-	32,054	-	32,054	-	-	-	32,054
Miscellaneous	544	-	-	-	544	-	6,729	6,729	7,273
Museum enhancements	113,563	-	-	-	113,563	-	-	-	113,563
Office supplies	11,791	-	-	635	12,426	45,557	11,470	57,027	69,453
Postage and freight	787	11,128	-	11	11,926	256,465	14,908	271,373	283,299
Printing and publications	7,478	32,166	-	-	39,644	176,313	-	176,313	215,957
Professional fees	10,350	-	-	4,000	14,350	73,554	50,021	123,575	137,925
Property costs	-	-	-	-	-	18,146	-	18,146	18,146
Repairs and maintenance	59,428	-	-	2,481	61,909	2,372	-	2,372	64,281
Storage and rentals	1,890	-	-	-	1,890	-	-	-	1,890
Strategic initiatives	-	-	-	-	-	31,565	-	31,565	31,565
Supplies	45,463	-	-	437	45,900	-	-	-	45,900
Telephone	20,485	-	-	740	21,225	3,849	-	3,849	25,074
Travel	10,005	-	-	2,821	12,826	1,080	-	1,080	13,906
Utilities	120,116	-	-	5,207	125,323	2,430	-	2,430	127,753
Website	14,497	-	-	-	14,497	14,497	-	14,497	28,994
Total expense before depreciation	1,205,845	48,260	32,054	601,100	1,887,259	1,228,169	137,894	1,366,063	3,253,322
Depreciation	5,214	-	-	5,115	10,329	43,649	-	43,649	53,978
Total expenses	\$ 1,211,059	\$ 48,260	\$ 32,054	\$ 606,215	\$ 1,897,588	\$ 1,271,818	\$ 137,894	\$ 1,409,712	\$ 3,307,300