

The Admiral Nimitz Foundation

Financial Statements and Supplemental Information

December 31, 2014 and 2013

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 financial statements of The Admiral Nimitz Foundation, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and net assets and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

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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, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended December 31, 2014 and 2013 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 has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Padgett, Statemann + Co., LLP

Austin, Texas

May 7, 2015

The Admiral Nimitz Foundation

Statements of Financial Position

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 2,717,004	\$ 1,542,498
Receivables:		
Accounts receivable	71,332	72,267
Current portion of unconditional promises to give – net of allowance for uncollectible contributions of \$6,000 in 2014 and 2013 (Note 4)	748,250	612,884
Inventory	237,055	264,870
Prepaid expenses	<u>9,167</u>	<u>17,459</u>
Total current assets	3,782,808	2,509,978
Property and Equipment – net (Note 5)	2,834,308	2,778,093
Foundation Collections	110,044	65,044
Endowments (Note 3)	5,472,181	5,272,765
Unconditional Promises to Give – net of current portion (Note 4)	<u>924,000</u>	<u>876,500</u>
Total assets	\$ <u>13,123,341</u>	\$ <u>11,502,380</u>
Current Liabilities		
Accounts payable	\$ 193,094	\$ 356,534
Accrued liabilities	16,272	20,770
Deferred revenue	43,267	77,267
Current maturities of long-term notes payable (Note 6)	<u>-</u>	<u>181,103</u>
Total current liabilities	<u>252,633</u>	<u>635,674</u>
Net Assets		
Unrestricted net assets:		
Board designated:		
For Nauwald Building	-	218,331
For Pacific Combat Zone Project	697,065	234,669
For Endowment (Notes 7 and 11)	5,352,213	5,050,308
Undesignated	<u>3,451,418</u>	<u>2,790,173</u>
	9,500,696	8,293,481
Temporarily restricted net assets (Note 8)	3,026,397	2,248,225
Permanently restricted net assets (Notes 9 and 11)	<u>343,615</u>	<u>325,000</u>
Total net assets	<u>12,870,708</u>	<u>10,866,706</u>
Total liabilities and net assets	\$ <u>13,123,341</u>	\$ <u>11,502,380</u>

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

The Admiral Nimitz Foundation

Statements of Activities and Net Assets

Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support and Investment Activity:				
Revenue and Support:				
Contributions, grants and contracts	\$ 1,176,117	\$ 1,449,871	\$ 18,615	\$ 2,644,603
General admissions	1,142,602	-	-	1,142,602
Memberships	231,849	-	-	231,849
Memorial Wall and Veterans Walk	123,710	-	-	123,710
Other program service fees	273,319	-	-	273,319
Facility rentals	75,197	-	-	75,197
Store sales— net of cost of goods sold of \$279,632	322,376	-	-	322,376
Special events – net of direct expenses of \$169,228	205,077	33,400	-	238,477
Interest and dividends	295,809	-	-	295,809
Realized and unrealized gain on investments	65,521	-	-	65,521
Other income	24,288	-	-	24,288
Net assets released from restrictions (Note 8)	<u>705,099</u>	<u>(705,099)</u>	<u>-</u>	<u>-</u>
Total revenue, support and investment activity	<u>4,640,964</u>	<u>778,172</u>	<u>18,615</u>	<u>5,437,751</u>
Expenses:				
Program expenses	2,409,091	-	-	2,409,091
Fundraising and development	558,061	-	-	558,061
General and administrative	<u>466,597</u>	<u>-</u>	<u>-</u>	<u>466,597</u>
Total expenses	<u>3,433,749</u>	<u>-</u>	<u>-</u>	<u>3,433,749</u>
Change in net assets	1,207,215	778,172	18,615	2,004,002
Net assets at beginning of year	<u>8,293,481</u>	<u>2,248,225</u>	<u>325,000</u>	<u>10,866,706</u>
Net assets at end of year	<u>\$ 9,500,696</u>	<u>\$ 3,026,397</u>	<u>\$ 343,615</u>	<u>\$ 12,870,708</u>

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

The Admiral Nimitz Foundation

Statements of Activities and Net Assets

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Support and Investment Activity:				
Revenue and Support:				
Contributions and grants	\$ 1,440,042	\$ 1,350,587	\$ 275,000	\$ 3,065,629
General admissions	1,027,373	-	-	1,027,373
Memberships	176,109	-	-	176,109
Memorial Wall and Veterans Walk	110,414	-	-	110,414
Other program service fees	218,306	-	-	218,306
Facility rentals	66,742	-	-	66,742
Store sales— net of cost of goods sold of \$270,175	272,879	-	-	272,879
Special events – net of direct expenses of \$119,653	180,630	-	-	180,630
Interest and dividends	305,814	12,304	-	318,118
Realized and unrealized gain on investments	523,998	-	-	523,998
Other income	20,884	-	-	20,884
Net assets released from restrictions	<u>1,882,960</u>	<u>(1,882,960)</u>	<u>-</u>	<u>-</u>
Total revenue, support and and investment activity	<u>6,226,151</u>	<u>(520,069)</u>	<u>275,000</u>	<u>5,981,082</u>
Expenses:				
Program expenses	2,466,921	-	-	2,466,921
Fundraising and development	739,286	-	-	739,286
General and administrative	<u>769,906</u>	<u>-</u>	<u>-</u>	<u>769,906</u>
Total expenses	<u>3,976,113</u>	<u>-</u>	<u>-</u>	<u>3,976,113</u>
Change in net assets	2,250,038	(520,069)	275,000	2,004,969
Net assets at beginning of year	<u>6,043,443</u>	<u>2,768,294</u>	<u>50,000</u>	<u>8,861,737</u>
Net assets at end of year	<u>\$ 8,293,481</u>	<u>\$ 2,248,225</u>	<u>\$ 325,000</u>	<u>\$ 10,866,706</u>

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

The Admiral Nimitz Foundation

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 2,004,002	\$ 2,004,969
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,669	70,952
Net realized and unrealized gains on investments	(65,521)	(523,998)
Changes in:		
Accounts receivable	935	(10,821)
Unconditional promises to give Inventory	(182,866)	886,930
Prepaid expenses	27,815	3,871
Accounts payable and accrued liabilities	8,292	(4,415)
Deferred revenue	(167,938)	71,191
	<u>(34,000)</u>	<u>28,325</u>
Net cash provided by operating activities	<u>1,677,388</u>	<u>2,527,004</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(187,884)	(525,128)
Purchase of investments	(184,055)	(1,624,832)
Proceeds from sales of investments	<u>50,160</u>	<u>609,276</u>
Net cash used in investing activities	<u>(321,779)</u>	<u>(1,540,684)</u>
Cash Flows From Financing Activities – payments on long-term debt	<u>(181,103)</u>	<u>(905,022)</u>
Net increase in cash and cash equivalents	1,174,506	81,298
Cash and cash equivalents at beginning of year	<u>1,542,498</u>	<u>1,461,200</u>
Cash and cash equivalents at end of year	\$ <u><u>2,717,004</u></u>	\$ <u><u>1,542,498</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ <u><u>5,601</u></u>	\$ <u><u>43,697</u></u>

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

The Admiral Nimitz Foundation

Notes to the Financial Statements

1. Organization and Significant Accounting Policies

Organization

The Admiral Nimitz Foundation (the “Foundation”) was originally formed in 1971 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. Under agreements with THC, the Foundation is provided, without cost, office space in the Museum and floor space for operation of the Museum store.

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 (“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.

Use of Estimates

The preparation of financial statements in conformity with 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”).

The Admiral Nimitz Foundation

Notes to the Financial Statements

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. Amounts excluded are cash and investments that are restricted for endowments. These cash and investments are classified as restricted cash and 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.

Accounts Receivable

Accounts receivable primarily consist of reimbursements from THC and rental receivables and are recorded as receivables 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, 2014 and 2013.

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. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable pledge receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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 web site – 5 years. The Foundation has adopted a capitalization policy for property and equipment of \$3,000.

Collections

THC Collections – The Museum has extensive collections of from the Pacific-Asiatic Theater of Operations that constitute a record of World War II. These valuable, and sometimes irreplaceable, collections have been acquired through field expeditions, contributions, and purchases since the Foundation's inception and represent one of the largest Pacific War history collections in the United States. Costs to refurbish items are recognized as expense when incurred.

The Collections are the property of THC and are not recognized as assets in the accompanying statements of financial position. They are held under the care of the curatorial staff for educational and public exhibition purposes in furtherance of the Foundation's mission.

Foundation Collections – The Foundation's personal collections have been capitalized since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their fair value on the accession date (the date on which the item is accepted by the Collections Committee of the Board of Directors). Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and the Foundation is protecting and preserving essentially undiminished the service potential of the collection item.

The value of the Foundation's collections at December 31, 2014 and 2013 totaled \$110,044 and \$65,044 respectively.

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 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, 2014 and 2013.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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, 2014 and 2013, 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, 2010.

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. There were no such contributed goods or services recognized for the years ended December 31, 2014 and 2013.

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.

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 and 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.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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.

Advertising

Advertising costs totaled \$227,398 and \$293,605 for the years ended December 31, 2014 and 2013, respectively, and are expensed as incurred.

Subsequent Events

The Foundation has evaluated subsequent events through May 7, 2015, the date the financial statements were available to be issued.

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.

The Admiral Nimitz Foundation

Notes to the Financial Statements

- 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.

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 tables represent assets measured at fair value on a recurring basis as reported on the statements of financial position as of December 31, 2014 and 2013 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at December 31, 2014	Level 1	Level 2	Level 3
Assets:				
Equities	\$ 1,794,409	\$ 1,794,409	\$ -	\$ -
Mutual funds	<u>3,379,096</u>	<u>3,379,096</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,173,505</u>	<u>\$ 5,173,505</u>	<u>\$ -</u>	<u>\$ -</u>
	Total Fair Value Measurement at December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Equities	\$ 1,082,957	\$ 1,082,957	\$ -	\$ -
Mutual funds	<u>3,870,671</u>	<u>3,870,671</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,953,628</u>	<u>\$ 4,953,628</u>	<u>\$ -</u>	<u>\$ -</u>

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 the Financial Statements

3. Endowments

The endowments consist of cash and investments. Cash balances in the endowments totaled \$298,676 and \$319,137 at December 31, 2014 and 2013, respectively.

Endowments consist of the following:

	December 31, 2014		
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Unrealized Appreciation</u>
Equities	\$ 1,515,653	\$ 1,794,409	\$ 278,756
Mutual funds	<u>3,185,858</u>	<u>3,379,096</u>	<u>193,238</u>
	<u>\$ 4,701,511</u>	<u>\$ 5,173,505</u>	<u>\$ 471,994</u>
	December 31, 2013		
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Unrealized Appreciation</u>
Equities	\$ 1,005,577	\$ 1,082,957	\$ 77,380
Mutual funds	<u>3,214,753</u>	<u>3,870,671</u>	<u>655,918</u>
	<u>\$ 4,220,330</u>	<u>\$ 4,953,628</u>	<u>\$ 733,298</u>

Investment income consists of the following:

	Year Ended December 31, 2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 295,809	\$ -	\$ -	\$ 295,809
Realized and unrealized gains – net	65,521	-	-	65,521
Investment expenses	<u>(53,563)</u>	<u>-</u>	<u>-</u>	<u>(53,563)</u>
	<u>\$ 307,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,767</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

	Year Ended December 31, 2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 305,814	\$ 12,304	\$ -	\$ 318,118
Realized and unrealized gains – net	523,998	-	-	523,998
Investment expenses	<u>(53,337)</u>	<u>-</u>	<u>-</u>	<u>(53,337)</u>
	<u>\$ 776,475</u>	<u>\$ 12,304</u>	<u>\$ -</u>	<u>\$ 788,779</u>

4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	December 31,	
	<u>2014</u>	<u>2013</u>
Gross amounts due in:		
One year or less	\$ 754,250	\$ 618,884
One to five years	<u>924,000</u>	<u>876,500</u>
Total unconditional promises to give	1,678,250	1,495,384
Less allowance for uncollectible promises	<u>(6,000)</u>	<u>(6,000)</u>
Net conditional promises to give	<u>\$ 1,672,250</u>	<u>\$ 1,489,384</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 the Financial Statements

5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	<u>2014</u>	<u>2013</u>
Land	\$ 516,483	\$ 516,483
Buildings and improvements	2,271,641	2,261,207
Equipment	235,101	149,311
Furniture and fixtures	110,638	110,638
Web site	<u>20,537</u>	<u>20,537</u>
	3,154,400	3,058,176
Less accumulated depreciation and amortization	<u>320,092</u>	<u>280,083</u>
	<u>\$ 2,834,308</u>	<u>\$ 2,778,093</u>

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 totaled \$86,669 and \$70,952, respectively.

6. Note Payable

Note payable consists of the following:

	December 31,	
	<u>2014</u>	<u>2013</u>
In October 2013, the Foundation refinanced an existing loan in the amount of \$200,000 secured by real estate. The loan has an interest rate of 5% (prime rate plus 0%; with 5% floor). The balance is payable in monthly installments of principal and interest of \$1,328 until maturity at December 8, 2031; however, the loan was paid in full during the year ended December 31, 2014.	\$ <u>-</u>	\$ <u>181,103</u>
	<u>\$ -</u>	<u>\$ 181,103</u>

Interest expense totaled \$5,601 and \$43,697 for the years ended December 31, 2014 and 2013, respectively.

The Admiral Nimitz Foundation

Notes to the Financial Statements

7. Unrestricted Board-Designated Net Assets for Endowment

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 for endowment consist of the following:

	December 31,	
	2014	2013
Foundation Endowment	\$ 881,812	\$ 810,319
Museum Endowment	<u>4,470,401</u>	<u>4,239,989</u>
	<u>\$ 5,352,213</u>	<u>\$ 5,050,308</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	December 31,	
	2014	2013
Memorial Wall	\$ -	\$ 1,736
Sons and Daughters of World War II	11,381	11,475
Nimitz Education and Research Center	-	12,718
Capital Campaign	48,850	178,736
Japanese Garden of Peace	20,906	32,921
Nauwald Building	-	738
Pacific Combat Zone renovation	1,097,177	647,887
General use/time restriction	1,759,886	1,327,500
Living History and other	19,797	24,514
Distinguished Speaker Series	10,000	10,000
Tour Mate Audio	25,000	-
Fund-a-Need Capital Assets	<u>33,400</u>	<u>-</u>
	<u>\$ 3,026,397</u>	<u>\$ 2,248,225</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

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

	December 31,	
	<u>2014</u>	<u>2013</u>
Memorial Wall	\$ 1,736	\$ 2,777
Sons and Daughters of World War II	1,019	-
Nimitz Education and Research Center	19,583	411,075
Ruff House	-	297,110
Japanese Garden of Peace	12,015	21,411
Trees and benches	-	13,174
Pacific Combat Zone renovation	28,284	62,113
Nauwald Building	214,245	311,757
Other	428,217	763,543
	<u>\$ 705,099</u>	<u>\$ 1,882,960</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	December 31,	
	<u>2014</u>	<u>2013</u>
McDougall Endowment	\$ <u>343,615</u>	\$ <u>325,000</u>

10. Joint Costs

The Foundation entered into an agreement with a company to solicit contributions through a direct mail program. The Foundation uses a newsletter to educate the public on the history of the military in the Pacific during World War II and solicit contributions for funding and maintaining the museum. As a result, in accordance with the Financial Accounting Standards Board ("FASB") guidelines, the Foundation allocates a portion of direct mail costs to program services and to fundraising.

The Admiral Nimitz Foundation

Notes to the Financial Statements

Joint costs for direct mailing expenses were allocated as follows:

	December 31,	
	2014	2013
Program	\$ 141,731	\$ 93,243
Fundraising	453,618	683,262
General and administrative	4,671	-
	<u>\$ 600,020</u>	<u>\$ 776,505</u>

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 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

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Notes to the Financial Statements

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

December 31, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 343,615	\$ 343,615
Board-designated endowment funds	<u>5,352,213</u>	<u>-</u>	<u>-</u>	<u>5,352,213</u>
	<u>\$ 5,352,213</u>	<u>\$ -</u>	<u>\$ 343,615</u>	<u>\$ 5,695,828</u>
December 31, 2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,736	\$ 325,000	\$ 326,736
Board-designated endowment funds	<u>5,050,308</u>	<u>-</u>	<u>-</u>	<u>5,050,308</u>
	<u>\$ 5,050,308</u>	<u>\$ 1,736</u>	<u>\$ 325,000</u>	<u>\$ 5,377,044</u>

The Foundation had the following changes in endowment net assets:

December 31, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 5,050,308	\$ 1,736	\$ 325,000	\$ 5,377,044
Investment return:				
Investment income	275,824	-	-	275,824
Net appreciation	68,531	-	-	68,531
Contributions	3,300	-	18,615	21,915
Transfers to create board-designated endowment funds	22,780	-	-	22,780
Amounts appropriated for expenditures	<u>(68,530)</u>	<u>(1,736)</u>	<u>-</u>	<u>(70,266)</u>
Endowment net assets at end of year	<u>\$ 5,352,213</u>	<u>\$ -</u>	<u>\$ 343,615</u>	<u>\$ 5,695,828</u>

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Notes to the Financial Statements

December 31, 2013	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 4,125,266	\$ 4,513	\$ 50,000	\$ 4,179,779
Investment return:				
Investment income	306,124	12,304	-	318,428
Net appreciation	506,267	-	-	506,267
Contributions	15,570	-	275,000	290,570
Payment on pledges	148,980	-	-	148,980
Amounts appropriated for expenditures	<u>(51,899)</u>	<u>(15,081)</u>	<u>-</u>	<u>(66,980)</u>
Endowment net assets at end of year	<u>\$ 5,050,308</u>	<u>\$ 1,736</u>	<u>\$ 325,000</u>	<u>\$ 5,377,044</u>

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

	<u>December 31, 2014</u>	<u>2013</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>\$ 343,615</u>	<u>\$ 325,000</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 343,615</u>	<u>\$ 325,000</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, 2014 and 2013.

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.

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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. 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 ended December 31, 2014 and 2013. Retirement plan expenses totaled \$6,577 and \$6,382 for the years ended December 31, 2014 and 2013, respectively.

13. 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, 2014, one receivable for admissions not yet transferred from THC comprised 88% of total accounts receivable, and two individual pledges compromised 92% of total pledges receivable. Management has reviewed the accounts for collectibility and believes the receivables to be substantially collectible based on history of collection.

At December 31, 2013, one receivable for admissions not yet transferred from THC comprised 74% of total accounts receivable, and two individual pledges compromised 86% of total pledges receivable. Management has reviewed the accounts for collectibility and believes the receivables to be substantially collectible based on history of collection.

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, 2015 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, 2014 and 2013, there were three state employees remaining. THC supported the Museum in the amount of \$181,997 for the fiscal period

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of September 1, 2013 through August 31, 2014 and \$178,834 for the fiscal period of September 1, 2012 through August 31, 2013, respectively, which was used to pay state employees' salaries until fully expended. This amount is netted with salaries expense on the statements of activities and net assets. Other costs, such as credit card fees, are 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, 2014

	Program Services				Total Program Services	Support Services		Total Support Services	Total
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals		General & Administrative	Fundraising		
Salaries and related expenses:									
Salaries	\$ 731,464	\$ -	\$ -	\$ 223,626	\$ 955,090	\$ 114,686	\$ 47,844	\$ 162,530	\$ 1,117,620
Payroll taxes	60,523	-	-	18,875	79,398	9,178	3,829	13,007	92,405
Employee benefits	119,832	-	-	29,799	149,631	11,491	4,150	15,641	165,272
Total salaries and related expenses	<u>911,819</u>	<u>-</u>	<u>-</u>	<u>272,300</u>	<u>1,184,119</u>	<u>135,355</u>	<u>55,823</u>	<u>191,178</u>	<u>1,375,297</u>
Expenses:									
Computer	10,675	-	-	85	10,760	3,649	23,465	27,114	37,874
Credit card fees	14,674	-	-	18,388	33,062	14,558	-	14,558	47,620
Dues and subscriptions	2,626	-	-	695	3,321	674	-	674	3,995
Educational programs	2,491	-	-	-	2,491	-	-	-	2,491
Exhibits and collections	112,812	-	-	-	112,812	-	-	-	112,812
Grants to organizations	14,000	-	-	-	14,000	-	-	-	14,000
Information technology	50,859	-	-	7,836	58,695	19,542	-	19,542	78,237
Insurance	24,435	-	-	3,781	28,216	12,850	-	12,850	41,066
Interest	-	-	-	-	-	5,601	-	5,601	5,601
Investment fees	45,198	-	-	-	45,198	8,365	-	8,365	53,563
Marketing	27,664	10,843	-	5,869	44,376	128,460	54,562	183,022	227,398
Program service fees	140,301	-	49,604	-	189,905	-	-	-	189,905
Museum enhancements	196,112	-	-	-	196,112	-	-	-	196,112
Office supplies	10,229	-	-	756	10,985	9,430	-	9,430	20,415
Postage and freight	33,874	12,143	-	-	46,017	4,129	235,050	239,179	285,196
Printing and publications	24,792	30,882	-	-	55,674	1,942	132,006	133,948	189,622
Professional fees	19,216	-	-	4,300	23,516	4,772	57,155	61,927	85,443
Property costs	-	-	-	-	-	24,635	-	24,635	24,635
Repairs and maintenance	45,907	-	-	1,371	47,278	1,470	-	1,470	48,748
Strategic initiatives	46,114	-	-	-	46,114	9,699	-	9,699	55,813
Supplies	32,948	-	-	3,221	36,169	327	-	327	36,496
Telephone	27,054	-	-	1,695	28,749	6,362	-	6,362	35,111
Travel	16,593	-	-	2,490	19,083	3,147	-	3,147	22,230
Utilities	146,868	-	-	5,407	152,275	2,129	-	2,129	154,404
Web site	1,215	-	-	-	1,215	1,781	-	1,781	2,996
Total expenses before depreciation	<u>1,046,657</u>	<u>53,868</u>	<u>49,604</u>	<u>55,894</u>	<u>1,206,023</u>	<u>263,522</u>	<u>502,238</u>	<u>765,760</u>	<u>1,971,783</u>
Depreciation	6,660	-	-	12,289	18,949	67,720	-	67,720	86,669
Total expenses	<u>\$ 1,965,136</u>	<u>\$ 53,868</u>	<u>\$ 49,604</u>	<u>\$ 340,483</u>	<u>\$ 2,409,091</u>	<u>\$ 466,597</u>	<u>\$ 558,061</u>	<u>\$ 1,024,658</u>	<u>\$ 3,433,749</u>

The Admiral Nimitz Foundation

Schedule of Functional Expenses

December 31, 2013

	Program Services				Support Services				Total
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals	Total Program Services	General & Administrative	Fundraising	Total Support Services	
Salaries and related expenses:									
Salaries	\$ 547,021	\$ -	\$ -	\$ 222,386	\$ 769,407	\$ 298,377	\$ 46,213	\$ 344,590	\$ 1,113,997
Payroll taxes	48,997	-	-	20,297	69,294	24,540	3,801	28,341	97,635
Employee benefits	96,165	-	-	25,115	121,280	27,900	6,010	33,910	155,190
Total salaries and related expenses	<u>692,183</u>	<u>-</u>	<u>-</u>	<u>267,798</u>	<u>959,981</u>	<u>350,817</u>	<u>56,024</u>	<u>406,841</u>	<u>1,366,822</u>
Expenses:									
Computer	4,471	-	-	228	4,699	1,930	28,883	30,813	35,512
Credit card fees	11,599	-	-	19,911	31,510	8,179	-	8,179	39,689
Dues and subscriptions	1,526	-	-	735	2,261	575	-	575	2,836
Educational programs	2,065	-	-	-	2,065	-	-	-	2,065
Exhibits and collections	130,828	-	-	-	130,828	-	-	-	130,828
Information technology	49,943	-	-	8,320	58,263	25,005	-	25,005	83,268
Insurance	10,936	-	-	6,400	17,336	13,754	-	13,754	31,090
Interest	-	-	-	-	-	43,697	-	43,697	43,697
Investment fees	46,721	-	-	-	46,721	6,616	-	6,616	53,337
Marketing	37,090	15,927	-	6,941	59,958	151,953	81,694	233,647	293,605
Program service fees	114,260	-	31,136	-	145,396	-	-	-	145,396
Miscellaneous	-	-	-	-	-	-	24	24	24
Museum enhancements	515,397	-	-	-	515,397	-	-	-	515,397
Office supplies	10,298	-	-	1,295	11,593	7,140	-	7,140	18,733
Postage and freight	44,114	10,825	-	-	54,939	5,462	304,712	310,174	365,113
Printing and publications	31,162	24,308	-	-	55,470	9,072	183,009	192,081	247,551
Professional fees	23,475	-	-	4,390	27,865	5,159	84,940	90,099	117,964
Property costs	-	-	-	-	-	29,747	-	29,747	29,747
Repairs and maintenance	58,033	-	-	607	58,640	1,093	-	1,093	59,733
Strategic initiatives	31,654	-	-	-	31,654	37,352	-	37,352	69,006
Supplies	35,044	-	-	2,574	37,618	88	-	88	37,706
Telephone	26,111	-	-	1,543	27,654	6,385	-	6,385	34,039
Travel	14,878	-	-	3,772	18,650	389	-	389	19,039
Utilities	133,775	-	-	4,924	138,699	2,216	-	2,216	140,915
Web site	13,299	-	-	-	13,299	8,750	-	8,750	22,049
Total expenses before depreciation	<u>1,346,679</u>	<u>51,060</u>	<u>31,136</u>	<u>61,640</u>	<u>1,490,515</u>	<u>364,562</u>	<u>683,262</u>	<u>1,047,824</u>	<u>2,538,339</u>
Depreciation	<u>3,736</u>	<u>-</u>	<u>-</u>	<u>12,689</u>	<u>16,425</u>	<u>54,527</u>	<u>-</u>	<u>54,527</u>	<u>70,952</u>
Total expenses	<u>\$ 2,042,598</u>	<u>\$ 51,060</u>	<u>\$ 31,136</u>	<u>\$ 342,127</u>	<u>\$ 2,466,921</u>	<u>\$ 769,906</u>	<u>\$ 739,286</u>	<u>\$ 1,509,192</u>	<u>\$ 3,976,113</u>