

The Admiral Nimitz Foundation

Financial Statements and Supplemental Information

December 31, 2015 and 2014

The Admiral Nimitz Foundation

Table of Contents

Financial Statements	Page
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities and Net Assets	4
Statements of Cash Flows	6
Notes to the Financial Statements	7
Supplemental Information	
Schedules of Functional Expenses	22



Padgett Stratemann

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 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., L.L.P.

Austin, Texas
May 26, 2016

The Admiral Nimitz Foundation

Statements of Financial Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 4,219,812	\$ 2,717,004
Receivables:		
Accounts receivable	327,348	71,332
Current portion of unconditional promises to give – net of allowance for uncollectible contributions of \$6,000 in 2015 and 2014 (Note 4)	863,450	748,250
Inventory	242,062	237,055
Prepaid expenses	<u>33,493</u>	<u>9,167</u>
Total current assets	5,686,165	3,782,808
Property and Equipment – net (Note 5)	6,915,523	2,834,308
Foundation Collections	65,044	110,044
Endowments (Note 3)	6,197,536	5,472,181
Unconditional Promises to Give – net of current portion (Note 4)	<u>460,000</u>	<u>924,000</u>
Total assets	<u>\$ 19,324,268</u>	<u>\$ 13,123,341</u>
Current Liabilities		
Accounts payable	\$ 341,750	\$ 193,094
Accrued liabilities	4,532	16,272
Deferred revenue	<u>74,696</u>	<u>43,267</u>
Total current liabilities	<u>420,978</u>	<u>252,633</u>
Net Assets		
Unrestricted net assets:		
Board designated:		
For Pacific Combat Zone Project	215,317	697,065
For Endowment (Notes 6 and 10)	5,714,555	5,352,213
Undesignated	<u>9,080,129</u>	<u>3,451,418</u>
	15,010,001	9,500,696
Temporarily restricted net assets (Note 7)	3,410,307	3,026,397
Permanently restricted net assets (Notes 8 and 10)	<u>482,982</u>	<u>343,615</u>
Total net assets	<u>18,903,290</u>	<u>12,870,708</u>
Total liabilities and net assets	<u>\$ 19,324,268</u>	<u>\$ 13,123,341</u>

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

The Admiral Nimitz Foundation

Statement of Activities and Net Assets

Year Ended December 31, 2015

	<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	\$ 5,389,129	\$ 5,267,055	\$ 139,367	\$ 10,795,551
General admissions	1,149,298	-	-	1,149,298
Memberships	233,217	-	-	233,217
Memorial Wall and Veterans Walk	128,580	-	-	128,580
Other program service fees	158,789	-	-	158,789
Facility rentals	34,593	-	-	34,593
Store sales— net of cost of goods sold of \$281,576	324,309	-	-	324,309
Special events — net of direct expenses of \$161,934	68,341	85,000	-	153,341
Interest and dividends	277,016	-	-	277,016
Realized and unrealized loss on investments	(448,242)	-	-	(448,242)
Other income	23,105	-	-	23,105
Net assets released from restrictions (Note 7)	4,968,145	(4,968,145)	-	-
	<u>12,306,280</u>	<u>383,910</u>	<u>139,367</u>	<u>12,829,557</u>
Total revenue, support, and investment activity				
Expenses:				
Program expenses	5,496,916	-	-	5,496,916
General and administrative	740,090	-	-	740,090
Fundraising and development	559,969	-	-	559,969
	<u>6,796,975</u>	<u>-</u>	<u>-</u>	<u>6,796,975</u>
Total expenses				
Change in net assets	5,509,305	383,910	139,367	6,032,582
Net assets at beginning of year	<u>9,500,696</u>	<u>3,026,397</u>	<u>343,615</u>	<u>12,870,708</u>
Net assets at end of year	<u>\$ 15,010,001</u>	<u>\$ 3,410,307</u>	<u>\$ 482,982</u>	<u>\$ 18,903,290</u>

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

The Admiral Nimitz Foundation

Statement 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 7)	<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
General and administrative	466,597	-	-	466,597
Fundraising and development	<u>558,061</u>	<u>-</u>	<u>-</u>	<u>558,061</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 Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 6,032,582	\$ 2,004,002
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	83,932	86,669
Net realized and unrealized (gains) losses on investments	448,242	(65,521)
Land contribution	(4,115,000)	-
Changes in:		
Accounts receivable	(256,016)	935
Unconditional promises to give	348,800	(182,866)
Inventory	(5,007)	27,815
Prepaid expenses	(24,326)	8,292
Accounts payable and accrued liabilities	136,916	(167,938)
Deferred revenue	31,429	(34,000)
Net cash provided by operating activities	<u>2,681,552</u>	<u>1,677,388</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(5,146)	(187,884)
Purchase of investments	(1,275,866)	(184,055)
Proceeds from sales of investments	<u>102,269</u>	<u>50,160</u>
Net cash used in investing activities	<u>(1,178,743)</u>	<u>(321,779)</u>
Cash Flows From Financing Activities – payments on long-term debt	<u>-</u>	<u>(181,103)</u>
Net increase in cash and cash equivalents	1,502,809	1,174,506
Cash and cash equivalents at beginning of year	<u>2,717,004</u>	<u>1,542,498</u>
Cash and cash equivalents at end of year	<u>\$ 4,219,812</u>	<u>\$ 2,717,004</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ -</u>	<u>\$ 5,601</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.

Recent Accounting Pronouncements

Inventories – In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-11, *Inventories: Simplifying the Measurement of Inventories*. The amendments in this ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. This ASU will be effective for the Foundation for fiscal years beginning after December 15, 2016. Early adoption of ASU No. 2015-11 is permitted. The Foundation does not expect the adoption of ASU No. 2015-11 to have a material effect on its financial statements.

The Admiral Nimitz Foundation

Notes to the Financial Statements

Revenue – In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effects the standard will have on the financial statements.

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. 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 Admiral Nimitz Foundation

Notes to the Financial Statements

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 was deemed necessary at December 31, 2015 and 2014.

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.

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

Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation is calculated on the straight-line method based on the following estimated useful lives: buildings and improvements – 0 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.

Collections

THC Collections – The Museum has extensive collections 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 statements of activities and net assets as unrestricted or temporarily restricted

The Admiral Nimitz Foundation

Notes to the Financial Statements

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 the service potential of the collection item.

The value of the Foundation's collections at December 31, 2015 and 2014 totaled \$65,044 and \$110,044, 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, 2015 and 2014.

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, 2015 and 2014, 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, 2012.

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, 2015 and 2014.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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 2016 Golf Tournament and Gala, Battle Buddies Classic, and the Premiere Business Partners, 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 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.

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.

Marketing

Marketing costs totaled \$229,029 and \$227,398 for the years ended December 31, 2015 and 2014, respectively, and are expensed as incurred.

Subsequent Events

The Foundation has evaluated subsequent events through May 26, 2016, the date the financial statements were available to be issued.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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.

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, 2015 and 2014 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
Equities	\$ 1,538,775	\$ 1,538,775	\$ -	\$ -
Mutual funds	4,462,353	4,462,353	-	-
	<u>\$ 6,001,128</u>	<u>\$ 6,001,128</u>	<u>\$ -</u>	<u>\$ -</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

	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>

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.

3. Endowments

The endowments consist of cash and investments. Cash balances in the endowments totaled \$196,408 and \$298,676 at December 31, 2015 and 2014, respectively.

Endowments consist of the following:

	December 31, 2015		
	Cost	Estimated Fair Value	Unrealized Depreciation
Equities	\$ 1,564,202	\$ 1,538,775	\$ (25,427)
Mutual funds	<u>4,583,522</u>	<u>4,462,353</u>	<u>(121,169)</u>
	<u>\$ 6,147,724</u>	<u>\$ 6,001,128</u>	<u>\$ (146,596)</u>
	December 31, 2014		
	Cost	Estimated Fair Value	Unrealized Appreciation
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>

The Admiral Nimitz Foundation

Notes to the Financial Statements

Investment income consists of the following:

	Year Ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 277,016	\$ -	\$ -	\$ 277,016
Realized and unrealized losses on investments	(448,242)	-	-	(448,242)
Investment fees	(59,211)	-	-	(59,211)
	<u>\$ (230,437)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (230,437)</u>

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

4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	December 31,	
	2015	2014
Gross amounts due in:		
One year or less	\$ 869,450	\$ 754,250
One to five years	<u>460,000</u>	<u>924,000</u>
Total unconditional promises to give	1,329,450	1,678,250
Less allowance for uncollectible promises	<u>(6,000)</u>	<u>(6,000)</u>
Net conditional promises to give	<u>\$ 1,323,450</u>	<u>\$ 1,672,250</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,	
	2015	2014
Land	\$ 4,631,483	\$ 516,483
Buildings and improvements	2,271,641	2,271,641
Equipment	258,836	235,101
Furniture and fixtures	137,049	110,638
Website	20,538	20,537
	<u>7,319,547</u>	<u>3,154,400</u>
Less accumulated depreciation	<u>404,024</u>	<u>320,092</u>
	<u>\$ 6,915,523</u>	<u>\$ 2,834,308</u>

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$83,932 and \$86,669, respectively.

6. 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,	
	2015	2014
Foundation Endowment	\$ 1,766,194	\$ 881,812
Museum Endowment	<u>3,948,361</u>	<u>4,470,401</u>
	<u>\$ 5,714,555</u>	<u>\$ 5,352,213</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

7. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	December 31,	
	2015	2014
Sons and Daughters of World War II	\$ 11,106	\$ 11,381
Capital Campaign	6,850	48,850
Japanese Garden of Peace	-	20,906
Pacific Combat Zone renovation	1,926,925	1,097,177
General use/time restriction	720,895	1,759,886
Living History and other	8,074	19,797
Digitization Distinguished Speaker Series	620,000	10,000
Tour Mate Audio	-	25,000
Fund-a-Need Capital Assets	116,457	33,400
	<u>\$ 3,410,307</u>	<u>\$ 3,026,397</u>

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

	Years Ended December 31,	
	2015	2014
Memorial	\$ 802,784	\$ 1,736
Sons and Daughters of World War II	675	1,019
Nimitz Education and Research Center	-	19,583
Japanese Garden of Peace	20,906	12,015
Pacific Combat Zone renovation	2,974,599	28,284
Nauwald Building	-	214,245
Capital Campaign	42,000	
Other	1,127,181	428,217
	<u>\$ 4,968,145</u>	<u>\$ 705,099</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	December 31,	
	2015	2014
McDougall Endowment	\$ <u>482,982</u>	\$ <u>343,615</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

9. 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 FASB guidelines, the Foundation allocates a portion of direct mail costs to program services and to fundraising.

Joint costs for direct mailing expenses were allocated as follows:

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Program	\$ 241,950	\$ 141,731
General and administrative	2,034	4,671
Fundraising	<u>374,030</u>	<u>453,618</u>
	<u>\$ 618,014</u>	<u>\$ 600,020</u>

10. 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.

The Admiral Nimitz Foundation

Notes to the Financial Statements

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015				
Donor-restricted endowment funds	\$ -	\$ -	\$ 482,982	\$ 482,982
Board-designated endowment funds	<u>5,714,555</u>	<u>-</u>	<u>-</u>	<u>5,714,555</u>
	<u>\$ 5,714,555</u>	<u>\$ -</u>	<u>\$ 482,982</u>	<u>\$ 6,197,537</u>
December 31, 2014				
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>

The Admiral Nimitz Foundation

Notes to the Financial Statements

The Foundation had the following changes in endowment net assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015				
Endowment net assets at beginning of year	\$ 5,352,213	\$ -	\$ 343,615	\$ 5,695,828
Investment return:				
Investment income	256,007	-	-	256,007
Net depreciation	(416,195)	-	-	(416,195)
Contributions	-	-	139,367	139,367
Transfers to create board-designated endowment funds	578,324	-	-	578,324
Amounts appropriated for expenditures	<u>(55,794)</u>	<u>-</u>	<u>-</u>	<u>(55,794)</u>
Endowment net assets at end of year	<u>\$ 5,714,555</u>	<u>\$ -</u>	<u>\$ 482,982</u>	<u>\$ 6,197,537</u>
December 31, 2014				
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>

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

	December 31,	
	<u>2015</u>	<u>2014</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>482,982</u>	\$ <u>343,615</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 482,982</u>	<u>\$ 343,615</u>

The Admiral Nimitz Foundation

Notes to the Financial Statements

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 GAAP, deficiencies of this nature are reported as unrestricted net assets. There were no such deficiencies as of December 31, 2015 and 2014.

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.

11. 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 employees' annual salary as a contribution for the years ended December 31, 2015 and 2014. Retirement plan expenses totaled \$7,536 and \$6,577 for the years ended December 31, 2015 and 2014, respectively.

12. 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, 2015, one receivable for admissions not yet transferred from THC comprised 16% of total accounts receivable, and three individual pledges comprised 98% of total pledges receivable. Management has reviewed the accounts for collectibility and believes the receivables to be substantially collectible based on history of collection.

The Admiral Nimitz Foundation

Notes to the Financial Statements

At December 31, 2014, one receivable for admissions not yet transferred from THC comprised 88% of total accounts receivable, and two individual pledges comprised 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.

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 September 1, 2020 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, 2015 and 2014, there were three state employees remaining. THC supported the Museum in the amount of \$190,002 for the fiscal period of September 1, 2014 through August 31, 2015 and \$181,997 for the fiscal period of September 1, 2013 through August 31, 2014, respectively, which was used to pay state employees' salaries until fully expended. This amount is netted with salaries expense on the schedules of functional expenses. 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 of the Museum from the support and income generated for the term of the operating agreement.

At December 31, 2015 and 2014, the Foundation has accounts receivable due from THC in the amount of \$51,822 and \$55,751, respectively.

The Foundation spent approximately \$2,300,000 in expenses for the renovations to the Museum, all of which were reimbursed by THC. The Foundation provided on-site management, supervision, direction, and control of all contractors and subcontractors of the renovation.

Supplemental Information

The Admiral Nimitz Foundation

Schedule of Functional Expenses

Year Ended December 31, 2015

	Program Services				Support Services			Total	
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals	Total Program Services	General and Administrative	Fundraising		Total Support Services
Salaries and related expenses:									
Salaries	\$ 628,453	\$ -	\$ -	\$ 175,831	\$ 804,284	\$ 374,075	\$ -	\$ 374,075	\$ 1,178,359
Payroll taxes	50,689	-	-	14,424	65,113	29,611	-	29,611	94,724
Employee benefits	130,515	-	-	23,047	153,562	41,196	-	41,196	194,758
Total salaries and related expenses	<u>809,657</u>	<u>-</u>	<u>-</u>	<u>213,302</u>	<u>1,022,959</u>	<u>444,882</u>	<u>-</u>	<u>444,882</u>	<u>1,467,841</u>
Expenses:									
Computer	-	7,515	-	-	7,515	248	24,053	24,301	31,816
Contribution	45,000	-	-	-	45,000	-	-	-	45,000
Credit card fees	12,993	-	-	20,144	33,137	15,388	-	15,388	48,525
Dues and subscriptions	5,125	-	-	549	5,674	129	-	129	5,803
Educational programs	1,550	-	-	-	1,550	-	-	-	1,550
Exhibits and collections	146,449	-	-	-	146,449	-	-	-	146,449
Information technology	51,987	-	-	6,632	58,619	19,581	-	19,581	78,200
Insurance	41,493	-	-	-	41,493	-	-	-	41,493
Investment fees	45,133	-	-	-	45,133	14,078	-	14,078	59,211
Marketing	28,763	21,678	-	-	50,441	133,047	45,541	178,588	229,029
Museum enhancements	3,345,372	-	-	-	3,345,372	-	-	-	3,345,372
Office supplies	15,010	-	-	1,158	16,168	9,117	-	9,117	25,285
Postage and freight	-	130,888	-	-	130,888	3,169	307,955	311,124	442,012
Printing and publications	-	55,606	-	-	55,606	1,373	140,391	141,764	197,370
Professional fees	13,920	13,132	-	4,640	31,692	5,073	42,029	47,102	78,794
Program service fees	105,175	-	51,472	-	156,647	-	-	-	156,647
Property costs	-	-	-	-	-	17,647	-	17,647	17,647
Repairs and maintenance	44,208	-	-	656	44,864	4,398	-	4,398	49,262
Strategic initiatives	17,631	-	-	-	17,631	-	-	-	17,631
Supplies	26,712	-	-	1,089	27,801	-	-	-	27,801
Telephone	26,915	-	-	1,181	28,096	6,686	-	6,686	34,782
Travel	13,299	-	-	2,861	16,160	1,276	-	1,276	17,436
Utilities	139,741	-	-	5,021	144,762	2,478	-	2,478	147,240
Website	847	-	-	-	847	-	-	-	847
Total expenses before depreciation	<u>4,127,323</u>	<u>228,819</u>	<u>51,472</u>	<u>43,931</u>	<u>4,451,545</u>	<u>233,688</u>	<u>559,969</u>	<u>793,657</u>	<u>5,245,202</u>
Depreciation	<u>10,728</u>	<u>-</u>	<u>-</u>	<u>11,684</u>	<u>22,412</u>	<u>61,520</u>	<u>-</u>	<u>61,520</u>	<u>83,932</u>
Total expenses	<u>\$ 4,947,708</u>	<u>\$ 228,819</u>	<u>\$ 51,472</u>	<u>\$ 268,917</u>	<u>\$ 5,496,916</u>	<u>\$ 740,090</u>	<u>\$ 559,969</u>	<u>\$ 1,300,059</u>	<u>\$ 6,796,975</u>

The Admiral Nimitz Foundation

Schedule of Functional Expenses

Year Ended December 31, 2014

	Program Services				Support Services				Total
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals	Total Program Services	General and Administrative	Fundraising	Total Support Services	
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
Contribution	-	-	-	-	-	-	-	-	-
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
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
Program service fees	140,301	-	49,604	-	189,905	-	-	-	189,905
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
Website	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	<u>6,660</u>	<u>-</u>	<u>-</u>	<u>12,289</u>	<u>18,949</u>	<u>67,720</u>	<u>-</u>	<u>67,720</u>	<u>86,669</u>
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>