

The Admiral Nimitz Foundation

Financial Report and Supplemental Information
December 31, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
The Admiral Nimitz Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Admiral Nimitz Foundation, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2016, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of The Admiral Nimitz Foundation as of and for the year ended December 31, 2015, were audited by other auditors, whose report dated May 26, 2016, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the year ended December 31, 2016, 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Austin, Texas
May 24, 2017

The Admiral Nimitz Foundation

**Statements of Financial Position
December 31, 2016 and 2015**

	2016	2015
Assets		
Cash and cash equivalents	\$ 2,999,698	\$ 1,988,924
Restricted endowment cash and cash equivalents	572,411	2,427,295
Receivables:		
Accounts receivable	73,296	327,348
Unconditional promises to give, net of allowance for uncollectible contributions of \$6,000 in 2016 and 2015 (Note 4)	1,355,350	1,323,450
Inventory	326,496	242,062
Prepaid expenses	22,902	33,493
Property and equipment, net (Note 5)	3,252,752	6,915,523
Foundation collections	-	65,044
Endowments (Note 3)	9,675,432	6,001,129
	<u>9,675,432</u>	<u>6,001,129</u>
Total assets	\$ 18,278,337	\$ 19,324,268
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 229,757	\$ 341,750
Accrued liabilities	5,742	4,532
Deferred revenue	53,505	74,696
Total liabilities	289,004	420,978
Net assets:		
Unrestricted:		
Board designated:		
For Endowment (Note 9)	9,802,785	5,714,555
Undesignated	6,340,588	9,295,446
Total unrestricted net assets	16,143,373	15,010,001
Temporarily restricted net assets (Note 6)	1,362,668	3,410,307
Permanently restricted net assets (Note 7)	483,292	482,982
Total net assets	17,989,333	18,903,290
	<u>17,989,333</u>	<u>18,903,290</u>
Total liabilities and net assets	\$ 18,278,337	\$ 19,324,268
	<u>\$ 18,278,337</u>	<u>\$ 19,324,268</u>

See notes to financial statements.

The Admiral Nimitz Foundation

**Statement of Activities
Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:				
Contributions, grants and contracts	\$ 1,433,820	\$ 1,649,658	\$ 310	\$ 3,083,788
General admissions	1,217,186	-	-	1,217,186
Memberships	232,965	-	-	232,965
Memorial Wall and Veterans Walk	106,460	-	-	106,460
Other program service fees	156,409	-	-	156,409
Facility rentals	22,230	-	-	22,230
Store sales, net of cost of goods sold of \$307,786	350,674	-	-	350,674
Special events, net of direct expenses of \$167,366	171,927	-	-	171,927
Other income	24,320	-	-	24,320
Net assets released from restrictions	3,697,297	(3,697,297)	-	-
Total operating revenue and support	7,413,288	(2,047,639)	310	5,365,959
Operating expenses:				
Program expenses	5,778,817	-	-	5,778,817
General and administrative	556,947	-	-	556,947
Fundraising and development	545,421	-	-	545,421
Total operating expenses	6,881,185	-	-	6,881,185
Total operating income	532,103	(2,047,639)	310	(1,515,226)
Nonoperating revenues (expenses):				
Interest and dividends	353,969	-	-	353,969
Net realized and unrealized gains on investments	319,295	-	-	319,295
Investment fees	(71,995)	-	-	(71,995)
Total nonoperating revenues (expenses), net	601,269	-	-	601,269
Change in net assets	1,133,372	(2,047,639)	310	(913,957)
Net assets at beginning of year	15,010,001	3,410,307	482,982	18,903,290
Net assets at end of year	\$ 16,143,373	\$ 1,362,668	\$ 483,292	\$ 17,989,333

See notes to financial statements.

The Admiral Nimitz Foundation

**Statement of Activities
Year Ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating 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
Other income	23,105	-	-	23,105
Net assets released from restrictions	4,968,145	(4,968,145)	-	-
Total operating revenue and support	12,477,506	383,910	139,367	13,000,783
Operating expenses:				
Program expenses	5,437,705	-	-	5,437,705
General and administrative	740,090	-	-	740,090
Fundraising and development	559,969	-	-	559,969
Total operating expenses	6,737,764	-	-	6,737,764
Total operating income	5,739,742	383,910	139,367	6,263,019
Nonoperating revenues (expenses):				
Interest and dividends	277,016	-	-	277,016
Net realized and unrealized losses on investments	(448,242)	-	-	(448,242)
Investment fees	(59,211)	-	-	(59,211)
Total nonoperating revenues (expenses), net	(230,437)	-	-	(230,437)
Change in net assets	5,509,305	383,910	139,367	6,032,582
Net assets at beginning of year	9,500,696	3,026,397	343,615	12,870,708
Net assets at end of year	\$ 15,010,001	\$ 3,410,307	\$ 482,982	\$ 18,903,290

See notes to financial statements.

The Admiral Nimitz Foundation

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

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (913,957)	\$ 6,032,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	90,548	83,932
Net realized and unrealized (gains) losses on investments	(319,295)	448,242
Gain on sale of property and equipment	(35,631)	-
Land contribution	(40,000)	(4,115,000)
Changes in:		
Restricted endowment cash and cash equivalents	1,854,884	(523,786)
Endowment cash	414,237	-
Accounts receivable	254,052	(256,016)
Unconditional promises to give	(31,900)	348,800
Inventory	(84,434)	(5,007)
Prepaid expenses	10,591	(24,326)
Accounts payable and accrued liabilities	(110,783)	136,916
Deferred revenue	(21,191)	31,429
Net cash provided by operating activities	1,067,121	2,157,766
Cash flows from investing activities:		
Purchase of property and equipment	(102,729)	(5,147)
Proceeds from sale of property and equipment	3,815,631	-
Purchase and reinvestments	(3,944,249)	(1,079,459)
Proceeds from sales of investments	175,000	102,269
Net cash used in investing activities	(56,347)	(982,337)
Net increase in cash and cash equivalents	1,010,774	1,175,429
Cash and cash equivalents at beginning of year	1,988,924	813,495
Cash and cash equivalents at end of year	\$ 2,999,698	\$ 1,988,924

See notes to financial statements.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 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. This office space is also shared with THC, therefore, it is not recorded as in kind.

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).

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 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 endowments for general or specific purposes.

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.

Cash and 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 cash equivalents that are restricted for endowments. These are classified as restricted cash and cash equivalents.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

Endowments: Investments in endowments 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.

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 was deemed necessary at December 31, 2016 and 2015.

Unconditional promises to give: Contributions are recognized when the donor makes a promise to give to the Foundation that is unconditional and are recorded at net realizable value. 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. Pledges receivable, if material, are discounted at an estimated present value.

Significant concentrations: At December 31, 2016, one receivable for admissions not yet transferred from THC comprised 98 percent of total accounts receivable, and four individual pledges comprised 99 percent 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, 2015, one receivable for admissions not yet transferred from THC comprised 16 percent of total accounts receivable, and three individual pledges comprised 98 percent of total pledges receivable. Management has reviewed the accounts for collectibility and believes the receivables to be substantially collectible based on history of collection.

Inventory: Command Post, Museum Store and the Pacific Combat Zone Admissions Center 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—three to 39 years; equipment—three to 10 years; furniture and fixtures—10 years and website—five years. The Foundation has adopted a capitalization policy for property and equipment of \$3,000.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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, 2016 and 2015.

Revenue recognition: Contributions are recognized as revenue when they are received or unconditionally pledged. 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 and reported as net assets released from restriction. Contributions received and expended in the same fiscal year are recorded as unrestricted contributions.

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, 2016 and 2015.

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 2017 Golf Tournament and Gala, Battle Buddies Classic and the Premiere Business Partners, as well as deposits for rental facilities.

Admissions and store sales revenue are recorded when earned, which is the date of the sale. Inventory is relieved at the time the Museum Store revenue is recognized.

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.

THC collection: 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; but the Foundation maintains them for THC. The Foundation may temporarily recognize contributed assets as assets, but only until ownership can be transferred to THC. They are held under the care of the curatorial staff for educational and public exhibition purposes in furtherance of the Foundation's mission.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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

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, 2016 and 2015, 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, 2013.

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 \$257,254 and \$229,029 for the years ended December 31, 2016 and 2015, respectively, and are expensed as incurred.

Recent accounting pronouncements:

Inventory: In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. 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 Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Revenue: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effects the standard will have on the financial statements.

Leases: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Restricted cash: In November 2016, the FASB issued No. ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, *Statement of Cash Flows*. Entities classify transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, while others disclose those cash flows as noncash investing or financing activities. This update addresses that diversity. The amendments in this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

Presentation: In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Subsequent events: The Foundation has evaluated subsequent events through May 24, 2017, the date the financial statements were available to be issued.

Reclassification: Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 2. Restricted Cash and Cash Equivalents

The Foundation shall place funds received from THC in a separate and segregated bank account identified as the "Museum Fund" and such funds shall be used for the sole purpose of satisfying costs resulting from the implementation of programs and other operations set forth in the Management Plan approved by THC.

Note 3. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the *FASB 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 and by level within the fair value measurement hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic	\$ 4,838,558	\$ -	\$ -	\$ 4,838,558
International	1,479,933	-	-	1,479,933
Other	853,280	-	-	853,280
Bond securities:				
Domestic	1,870,118	-	-	1,870,118
International	384,290	-	-	384,290
	<u>\$ 9,426,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,426,179</u>
Endowments measured at NAV:				
Mutual funds				249,253
Total endowments				<u>\$ 9,675,432</u>

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 3. Fair Value Measurements and Disclosures (Continued)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic	\$ 3,281,522	\$ -	\$ -	\$ 3,281,522
International	809,072	-	-	809,072
Other	557,381	-	-	557,381
Bond securities:				
Domestic	1,076,576	-	-	1,076,576
International	276,578	-	-	276,578
	<u>\$ 6,001,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,001,129</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.

Note 4. Unconditional Promises to Give

Unconditional promises to give consist of the following:

	December 31	
	2016	2015
Gross amounts due in:		
One year or less	\$ 961,350	\$ 869,450
One to five years	400,000	460,000
Total unconditional promises to give	1,361,350	1,329,450
Less allowance for uncollectible promises	(6,000)	(6,000)
Net conditional promises to give	<u>\$ 1,355,350</u>	<u>\$ 1,323,450</u>

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

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment consist of the following:

	December 31	
	2016	2015
Land	\$ 891,483	\$ 4,631,483
Buildings and improvements	2,271,648	2,271,641
Equipment	426,610	258,836
Furniture and fixtures	137,049	137,049
Website	20,538	20,538
	<u>3,747,328</u>	<u>7,319,547</u>
Less accumulated depreciation	494,576	404,024
	<u>\$ 3,252,752</u>	<u>\$ 6,915,523</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2016	2015
Sons and Daughters of World War II	\$ 11,006	\$ 11,106
Capital Campaign	1,000	6,850
Japanese Garden of Peace	20,158	-
Pacific Combat Zone renovation	470,559	1,926,925
General use/time restriction	284,021	720,895
Living History and other	11,381	8,074
Digitization and Distinguished Speaker Series	469,193	620,000
Fund-a-Need Capital Assets	95,350	116,457
	<u>\$ 1,362,668</u>	<u>\$ 3,410,307</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	
	2016	2015
Memorial	\$ -	\$ 802,784
Sons and Daughters of World War II	699	675
Japanese Garden of Peace	4,013	20,906
Pacific Combat Zone renovation	3,242,175	3,016,599
Bush Gallery	13,384	-
Other	437,026	1,127,181
	<u>\$ 3,697,297</u>	<u>\$ 4,968,145</u>

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	December 31	
	2016	2015
McDougall Endowment	\$ 483,292	\$ 482,982

Note 8. 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	
	2016	2015
Program	\$ 118,233	\$ 241,950
General and administrative	6,093	2,034
Fundraising	581,729	374,030
	<u>\$ 706,055</u>	<u>\$ 618,014</u>

Note 9. Endowments

The Foundation Endowment was established by the Foundation's Board to invest certain contributed funds. Income earned from the endowments is to be used to help ensure the future operations of the Foundation. These funds are invested as detailed in Note 3. 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 3. Future contributions to the Museum Endowment will be added, as deemed necessary by the Board.

The Board created a subaccount of the Foundation Endowment at The Community Foundation of the Texas Hill Country. The decision was based on the Foundation's desire to be a community partner and invest part of its endowment in the Texas Hill Country to assist other non-profits in their local community. These funds are invested as detailed in Note 3.

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.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 9. Endowments (Continued)

Interpretation of relevant law: The Board has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

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

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, 2016 and 2015.

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 periods, 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 endowment investments to achieve its long-term return objectives with prudent risk constraints.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 9. Endowments (Continued)

Spending policy and how the investment objectives relate to the spending policy: The Board has established a maximum spending rate of 3.5 percent of the average of the previous 12 quarter asset values of the Foundation endowment. The Foundation may use all the current year's annual income (dividends and interest) from the endowment up to the maximum spending rate calculated above.

The Foundation may elect not to spend all, or a portion, of the Foundation endowment spending provided above if not needed to operate the Foundation and/or the Museum. In this case, the unspent funds will remain in the endowment. These unspent funds will not carry-over and shall not be available for withdrawal as part of any future year's annual income.

The endowments consist of cash and investments. Cash balances in the endowments totaled \$610,645 and \$196,408 at December 31, 2016 and 2015, respectively.

Unrestricted Board-designated net assets for endowment consist of the following:

	December 31	
	2016	2015
McDougall Endowment—unrestricted portion	\$ 1,623	\$ -
Foundation Endowment	5,400,745	1,766,194
Community Endowment	249,581	-
Museum Endowment	4,150,836	3,948,361
	<u>\$ 9,802,785</u>	<u>\$ 5,714,555</u>

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

	December 31, 2016		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 483,292	\$ 483,292
Board-designated endowment funds	9,802,785	-	9,802,785
	<u>\$ 9,802,785</u>	<u>\$ 483,292</u>	<u>\$ 10,286,077</u>

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

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 9. Endowments (Continued)

Investment income consists of the following:

	December 31	
	2016	2015
Interest and dividends	\$ 352,146	\$ 277,016
Realized and unrealized gains (losses) on investments	319,295	(448,242)
Investment fees	(71,995)	(59,211)
	<u>\$ 599,446</u>	<u>\$ (230,437)</u>

The Foundation had the following changes in endowment net assets:

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 5,714,555	\$ -	\$ 482,982	\$ 6,197,537
Investment return:				
Investment income	352,146	-	-	352,146
Net depreciation	247,300	-	-	247,300
Transfers to create Board-designated endowment funds	3,663,784	-	310	3,664,094
Amounts appropriated for expenditures	(175,000)	-	-	(175,000)
Endowment net assets at end of year	<u>\$ 9,802,785</u>	<u>\$ -</u>	<u>\$ 483,292</u>	<u>\$ 10,286,077</u>

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(55,794)	-	-	(55,794)
Endowment net assets at end of year	<u>\$ 5,714,555</u>	<u>\$ -</u>	<u>\$ 482,982</u>	<u>\$ 6,197,537</u>

Note 10. 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 percent of participating employees' annual salary as a contribution for the years ended December 31, 2016 and 2015. Retirement plan expenses totaled \$7,623 and \$7,536 for the years ended December 31, 2016 and 2015, respectively.

The Admiral Nimitz Foundation

Notes to Financial Statements

Note 11. 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 five-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 provides the Foundation with an annual stipend of \$200,000 to cover the costs of state employees. 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, 2016 and 2015, there were three state employees remaining. THC supported the Museum in the amount of \$194,271 for the year ended December 31, 2016, and \$190,002 for the year ended December 31, 2015, 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, 2016 and 2015, the Foundation has accounts receivable due from THC in the amount of \$71,984 and \$51,822, respectively.

Supplemental Information

The Admiral Nimitz Foundation

Schedule of Functional Expenses Year Ended December 31, 2016

	Program Services				Total Program Services	Support Services		Total Support Services	Total
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals		General and Administrative	Fundraising		
Salaries and related expenses:									
Salaries	\$ 798,432	\$ -	\$ -	\$ 222,219	\$ 1,020,651	\$ 192,648	\$ -	\$ 192,648	\$ 1,213,299
Payroll taxes	62,939	-	-	18,688	81,627	14,688	-	14,688	96,315
Employee benefits	165,707	-	-	25,217	190,924	26,351	-	26,351	217,275
Total salaries and related expenses	1,027,078	-	-	266,124	1,293,202	233,687	-	233,687	1,526,889
Expenses:									
Computer	11,517	395	-	90	12,002	3,811	23,969	27,780	39,782
Continuing education	4,422	-	-	-	4,422	-	-	-	4,422
Credit card fees	15,650	828	83	17,247	33,808	7,365	-	7,365	41,173
Dues and subscriptions	-	2,223	-	264	2,487	410	-	410	2,897
Educational programs	11,001	-	-	-	11,001	-	-	-	11,001
Exhibits and collections	128,698	-	-	-	128,698	-	-	-	128,698
Information technology	56,394	3,187	-	8,611	68,192	18,058	-	18,058	86,250
Insurance	28,297	-	-	4,673	32,970	14,019	-	14,019	46,989
Marketing	40,672	-	-	-	40,672	136,145	80,437	216,582	257,254
Museum enhancements	3,457,369	-	-	-	3,457,369	-	-	-	3,457,369
Office supplies	12,391	302	60	1,432	14,185	5,372	302	5,674	19,859
Postage and freight	70,516	3,719	-	-	74,235	3,494	216,501	219,995	294,230
Printing and publications	59,121	-	-	-	59,121	9,869	224,212	234,081	293,202
Professional fees	52,411	-	-	-	52,411	17,470	-	17,470	69,881
Program service fees	23,376	-	32,022	-	55,398	-	-	-	55,398
Property costs	-	-	-	-	-	23,052	-	23,052	23,052
Repairs and maintenance	35,776	-	-	1,193	36,969	3,118	-	3,118	40,087
Software	22,479	1,097	-	6,150	29,726	6,219	-	6,219	35,945
Strategic initiatives	158,570	-	-	-	158,570	-	-	-	158,570
Supplies	29,141	-	-	75	29,216	905	-	905	30,121
Telephone	26,002	899	-	1,171	28,072	6,139	-	6,139	34,211
Travel	8,858	-	-	258	9,116	228	-	228	9,344
Utilities	117,088	-	-	4,053	121,141	2,128	-	2,128	123,269
Website	744	-	-	-	744	-	-	-	744
Total expenses before depreciation	4,370,493	12,650	32,165	45,217	4,460,525	257,802	545,421	803,223	5,263,748
Depreciation	10,728	-	-	14,362	25,090	65,458	-	65,458	90,548
Total expenses	\$ 5,408,299	\$ 12,650	\$ 32,165	\$ 325,703	\$ 5,778,817	\$ 556,947	\$ 545,421	\$ 1,102,368	\$ 6,881,185

The Admiral Nimitz Foundation

Schedule of Functional Expenses Year Ended December 31, 2015

	Program Services				Total Program Services	Support Services		Total Support Services	Total
	Museum Operating	Memberships	Memorial Wall and Veterans Walk	Retail and Rentals		General and Administrative	Fundraising		
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	809,657	-	-	213,302	1,022,959	444,882	-	444,882	1,467,841
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
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	4,082,190	228,819	51,472	43,931	4,406,412	219,610	559,969	779,579	5,185,991
Depreciation	10,728	-	-	11,684	22,412	61,520	-	61,520	83,932
Total expenses	\$ 4,902,575	\$ 228,819	\$ 51,472	\$ 268,917	\$ 5,451,783	\$ 726,012	\$ 559,969	\$ 1,285,981	\$ 6,737,764

