

ADMIRAL NIMITZ FOUNDATION

FINANCIAL STATEMENTS

December 31, 2018 and 2017

ADMIRAL NIMITZ FOUNDATION
FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Admiral Nimitz Foundation
Fredericksburg, Texas

We have audited the accompanying financial statements of the Admiral Nimitz Foundation (a non-profit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities (with comparative totals for 2017), functional expenses (with comparative totals for 2017), 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 controls 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

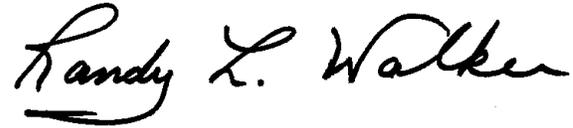
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first letter of the first name.

San Antonio, Texas
May 12, 2019

FINANCIAL STATEMENTS

ADMIRAL NIMITZ FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 1,652,357	\$ 904,863
Receivables:		
Accounts Receivable	54,361	58,015
Unconditional Promises to Give, Net of Allowance for Uncollectable Contributions of \$6,000	261,251	444,401
Inventory	231,263	262,504
Prepaid Expenses	34,334	51,002
Total Current Assets	2,233,566	1,720,785
<u>LONG-TERM ASSETS</u>		
Restricted Endowment Cash and Cash Equivalents	500,558	492,888
Investments	13,519,245	14,414,510
Property and Equipment, Net	3,171,801	3,224,886
Long-Term Promises to Give	200,000	300,000
Total Long-Term Assets	17,391,604	18,432,284
TOTAL ASSETS	\$ 19,625,170	\$ 20,153,069
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 231,243	\$ 167,121
Accrued Expenses	3,022	3,639
Deferred Revenue	46,075	74,026
Total Current Liabilities	280,340	244,786
TOTAL LIABILITIES	280,340	244,786
<u>NET ASSETS</u>		
Without Donor Restrictions		
Undesignated	5,964,502	5,873,319
Board-Designated	10,568,330	11,412,015
Total Without Donor Restrictions	16,532,832	17,285,334
With Donor Restrictions		
Purpose-Restricted	2,328,706	2,139,657
Perpetually Restricted	483,292	483,292
Total With Donor Restrictions	2,811,998	2,622,949
TOTAL NET ASSETS	19,344,830	19,908,283
TOTAL LIABILITIES AND NET ASSETS	\$ 19,625,170	\$ 20,153,069

The accompanying notes are an integral part of these financial statements.

ADMIRAL NIMITZ FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
(with comparative totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
<u>OPERATING REVENUE AND SUPPORT</u>				
Contributions, Grants, and Contracts	\$ 1,912,795	\$ 687,154	\$ 2,599,949	\$ 3,772,243
General Admissions	1,248,164	-	1,248,164	1,284,848
Other Program Service Fees	448,795	-	448,795	229,271
Store Sales, Net of Cost of Goods Sold of \$364,292 and \$338,059, respectively	373,687	-	373,687	359,583
Special Events, Net of Direct Expenses of \$238,743 and \$187,002, respectively	281,083	-	281,083	138,757
Memberships	259,530	-	259,530	178,871
Memorial Wall and Veterans Walk	97,091	-	97,091	93,381
Facility Rentals	49,375	-	49,375	35,546
Net Assets Released from Restrictions	498,105	(498,105)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	5,168,625	189,049	5,357,674	6,092,500
<u>OPERATING EXPENSES</u>				
Program Services	3,643,037	-	3,643,037	4,665,847
General and Administrative	516,813	-	516,813	589,171
Fundraising and Development	434,474	-	434,474	589,883
TOTAL OPERATING EXPENSES	4,594,324	-	4,594,324	5,844,901
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	574,301	189,049	763,350	247,599
<u>NON-OPERATING ACTIVITY</u>				
Investment (Loss) Income, Net	(1,326,803)	-	(1,326,803)	1,671,351
TOTAL NON-OPERATING ACTIVITY	(1,326,803)	-	(1,326,803)	1,671,351
CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY	(752,502)	189,049	(563,453)	1,918,950
NET ASSETS, Beginning of Year	17,285,334	2,622,949	19,908,283	17,989,333
NET ASSETS, End of Year	\$ 16,532,832	\$ 2,811,998	\$ 19,344,830	\$ 19,908,283

The accompanying notes are an integral part of these financial statements.

ADMIRAL NIMITZ FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(with comparative totals for 2017)

	Program Services				Support Services				2018 Total	2017 Total
	Museum Operating	Memberships	Memorial Walk and Veterans Walk	Retail and Rentals	Total Program Services	General and Administrative	Fundraising and Development	Total Support Services		
OPERATING EXPENSES										
Salaries and Wages	\$ 1,064,889	\$ -	\$ -	\$ 245,338	\$ 1,310,227	\$ 215,810	\$ -	\$ 215,810	\$ 1,526,037	\$ 1,383,401
Employee Benefits	337,377	-	-	38,731	376,108	38,285	-	38,285	414,393	411,878
Payroll Taxes	81,420	-	-	18,910	100,330	17,040	-	17,040	117,370	109,212
Total Payroll Expenses	1,483,686	-	-	302,979	1,786,665	271,135	-	271,135	2,057,800	1,904,491
Museum Enhancements	507,633	-	-	-	507,633	-	-	-	507,633	1,966,447
Marketing	213,121	6,978	-	711	220,810	2,254	67,178	69,432	290,242	302,224
Postage and Freight	72,206	7,189	-	-	79,395	7,806	187,106	194,912	274,307	314,684
Printing and Publications	52,669	25,597	-	-	78,266	1,841	123,091	124,932	203,198	337,574
Educational Programs	160,151	-	-	-	160,151	-	-	-	160,151	37,455
Program Service Fees	95,366	1,107	32,199	23,083	151,755	-	-	-	151,755	95,008
Utilities	122,841	-	-	4,778	127,619	2,288	-	2,288	129,907	130,479
Professional Fees	29,665	-	-	-	29,665	48,200	38,555	86,755	116,420	77,827
Exhibits and Collections	84,070	-	-	-	84,070	-	-	-	84,070	136,158
Informational Technology	57,951	-	-	8,282	66,233	16,594	-	16,594	82,827	77,878
Insurance	37,072	-	-	7,676	44,748	14,593	-	14,593	59,341	41,987
Computer	11,302	-	-	218	11,520	26,153	18,544	44,697	56,217	36,079
Repairs and Maintenance	45,278	-	-	10,655	55,933	134	-	134	56,067	56,060
Software	36,399	-	-	7,894	44,293	10,434	-	10,434	54,727	41,212
Credit Card Fees	18,574	-	-	15,662	34,236	18,574	-	18,574	52,810	53,108
Strategic Initiatives	47,703	-	-	-	47,703	-	-	-	47,703	18,585
Supplies	27,355	-	-	-	27,355	106	-	106	27,461	20,776
Office Supplies	10,619	-	-	2,850	13,469	7,741	-	7,741	21,210	24,585
Property Costs	-	-	-	-	-	17,688	-	17,688	17,688	15,932
Travel	13,771	-	-	-	13,771	710	-	710	14,481	11,267
Telephone	6,644	-	-	61	6,705	662	-	662	7,367	30,673
Continuing Education	5,024	-	-	2,330	7,354	-	-	-	7,354	5,516
Dues and Subscriptions	2,617	-	-	-	2,617	1,443	-	1,443	4,060	3,307
Website	2,091	-	-	-	2,091	-	-	-	2,091	1,205
Total Expenses Before Depreciation	3,143,808	40,871	32,199	387,179	3,604,057	448,356	434,474	882,830	4,486,887	5,740,517
Depreciation	24,879	-	-	14,101	38,980	68,457	-	68,457	107,437	104,384
TOTAL OPERATING EXPENSES	\$ 3,168,687	\$ 40,871	\$ 32,199	\$ 401,280	\$ 3,643,037	\$ 516,813	\$ 434,474	\$ 951,287	\$ 4,594,324	\$ 5,844,901

The accompanying notes are an integral part of these financial statements.

ADMIRAL NIMITZ FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
(Decrease) Increase in Net Assets from Operations	\$ (563,453)	\$ 1,918,950
Adjustments to Reconcile Net Change to Net Cash		
Provided by Operations:		
Depreciation	107,437	104,384
Net Realized and Unrealized Loss (Gain) on Investments	1,326,803	(1,147,060)
Decrease (Increase) in Assets:		
Accounts Receivable	3,654	15,281
Unconditional Promises to Give	283,150	610,949
Inventory	31,241	63,992
Prepaid Expenses	16,668	(28,100)
Increase (Decrease) in Liabilities:		
Accounts Payable	64,122	(62,636)
Accrued Expenses	(617)	(2,103)
Deferred Revenue	(27,951)	20,521
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,241,054	1,494,178
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of Investments	(538,568)	(3,748,508)
Proceeds from Sale of Investments	107,030	156,490
Purchases of Fixed Assets	(54,352)	(76,518)
NET CASH USED BY INVESTING ACTIVITIES	(485,890)	(3,668,536)
NET INCREASE (DECREASE) IN CASH FLOWS	755,164	(2,174,358)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, Beginning of Year	1,397,751	3,572,109
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, End of Year	\$ 2,152,915	\$ 1,397,751

The accompanying notes are an integral part of these financial statements.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

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). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The Foundation is required to report information regarding their financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors (the Board) are reported as net assets without donor restrictions, board-designated.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that are more restrictive than the Foundation's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 endowment cash and cash equivalents in the statements of financial position.

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. Investments in endowments are stated at either fair value or net asset value (NAV). Unrealized gains and losses are included in investment (loss) income in the statement of activities. For the years ended December 31, 2018 and 2017, investment (loss) income was reported net of fees of \$137,394 and \$118,257, respectively.

Accounts Receivable

Accounts receivable primarily consist of reimbursements from THC and rental receivables. They 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, 2018 and 2017.

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.

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).

Marketing

Marketing costs are expensed as incurred. Marketing expense for the years ended December 31, 2018 and 2017 was \$290,242 and \$302,224, respectively.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Concentrations

At December 31, 2018 and 2017, one receivable for credit card payments not yet posted to the Foundation's bank accounts made up 97% and 80%, respectively, of total accounts receivable. At December 31, 2018 and 2017, three individual pledges comprised 94% of total pledges receivable. Management has reviewed the accounts for collectibility and believes the receivables to be substantially collectible based on history of collection.

Property and Equipment

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.

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, 2018 and 2017.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions are recorded without donor restrictions or with donor restrictions based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to net assets without donor restrictions and reported as net assets released from restriction. Contributions received and expended in the same fiscal year are recorded as contributions without donor restrictions.

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, 2018 and 2017.

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 2019 and 2018 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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contracts

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

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses which are allocated on the basis of estimates of time and effort, as well as utilities, depreciation, insurance, and repairs and maintenance which are allocated on the basis of square footage or some other reasonable basis.

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, 2018 and 2017, no interest or penalties were required to be accrued. The Foundation, generally, is no longer subject to income tax examinations by federal authorities for years prior to December 31, 2015.

Subsequent Events

The Foundation has evaluated subsequent events through May 12, 2019, the date the financial statements were available to be issued.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

New Accounting Pronouncements

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.

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 statement of financial position 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 statement of activities. 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.

Recently Adopted Accounting Pronouncements

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

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

December 15, 2016. Early adoption of ASU No. 2015-11 is permitted. The adoption of ASU No. 2015-11 had no material effect on the Foundation's financial statements.

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 early adopted this new pronouncement effective January 1, 2017.

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 Foundation adopted this accounting pronouncement effective January 1, 2017.

NOTE 2 - CONCENTRATION OF CREDIT RISK

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 had uninsured cash balances of \$1,925,836 and \$638,242, not including reconciling items, at December 31, 2018 and 2017, respectively.

NOTE 3 - RESTRICTED CASH AND CASH EQUIVALENTS

The Foundation is required to place funds received from THC in a separate and segregated bank account identified as the "Museum Fund" and to use these funds 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. Restricted endowment cash and cash equivalents were \$500,558 and \$492,888 as of December 31, 2018 and 2017, respectively.

NOTE 4 - 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:

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 - FAIR VALUE MEASUREMENTS AND DISCLOSURES (continued)

- 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 statement of financial position and by level within the fair value measurement hierarchy at December 31:

2018				
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 2,839,477	\$ -	\$ -	\$ 2,839,477
Bond Funds	3,917,471	-	-	3,917,471
Equity Funds	5,231,545	-	-	5,231,545
Exchange Traded Funds	1,267,264	-	-	1,267,264
Total	\$ 13,255,757	\$ -	\$ -	13,255,757

Endowments measured at NAV:

Mutual Funds	263,488
Total Investments	\$ 13,519,245

2017				
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 2,403,615	\$ -	\$ -	\$ 2,403,615
Bond Funds	4,059,206	-	-	4,059,206
Equity Funds	5,431,462	-	-	5,431,462
Exchange Traded Funds	2,239,479	-	-	2,239,479
Total	\$ 14,133,762	\$ -	\$ -	14,133,762

Endowments measured at NAV:

Mutual Funds	280,748
Total Investments	\$ 14,414,510

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 - FAIR VALUE MEASUREMENTS AND DISCLOSURES (continued)

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 5 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Gross Amounts Due in:		
One Year or Less	\$ 267,251	\$ 450,401
One to Five Years	200,000	300,000
Total Unconditional Promises to Give	<u>467,251</u>	<u>750,401</u>
Less Allowance for Uncollectible Promises	<u>(6,000)</u>	<u>(6,000)</u>
Net Unconditional Promises to Give	<u>\$ 461,251</u>	<u>\$ 744,401</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.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 891,483	\$ 891,483
Buildings and Improvements	2,348,446	2,341,378
Equipment	480,679	433,395
Furniture and Fixtures	137,049	137,049
Website	20,537	20,537
	<u>3,878,194</u>	<u>3,823,842</u>
Less Accumulated Depreciation	<u>(706,393)</u>	<u>(598,956)</u>
Total	<u>\$ 3,171,801</u>	<u>\$ 3,224,886</u>

NOTE 7 - 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 at December 31:

	<u>2018</u>	<u>2017</u>
Program	\$ 165,261	\$ 134,315
General and Administrative	6,494	8,311
Fundraising	<u>434,474</u>	<u>562,450</u>
Total	<u>\$ 606,229</u>	<u>\$ 705,076</u>

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Purpose-Restricted:		
Nimitz Renovation	\$ 1,912,276	\$ 1,614,951
Digitization and Distinguished Speaker Series	216,457	304,569
Tour-Mate	58,421	100,000
Living History and Other	129,945	60,480
Fund-a-need	-	33,400
Nimitz Dinner and Leadership	-	15,000
Sons and Daughters	11,607	11,257
Total Purpose-Restricted	<u>2,328,706</u>	<u>2,139,657</u>
Perpetually Restricted:		
McDougall Endowment	483,292	483,292
Total Perpetually Restricted	<u>483,292</u>	<u>483,292</u>
Total Net Assets With Donor Restrictions	\$ <u>2,811,998</u>	\$ <u>2,622,949</u>

NOTE 9 - ENDOWMENTS

The Foundation Endowment was established by the Foundation's Board of Directors (the 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 4. Future contributions to the Foundation Endowment will be added to it, as deemed necessary by the Board.

The Museum Endowment was created by the 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 4. 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 4.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the 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 is released when the time restriction has expired or 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 net assets without donor restrictions. There were no such deficiencies as of December 31, 2018 and 2017.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 9 - ENDOWMENTS (continued)

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.

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 will 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 \$500,558 and \$492,888 at December 31, 2018 and 2017, respectively.

Net assets without donor restrictions, board-designated for endowments, consisted of the following at December 31:

	2018	2017
McDougall Endowment	\$ 18,914	\$ 80,274
Foundation Endowment	6,141,790	6,296,360
Community Endowment	263,489	280,748
Museum Endowment	4,144,137	4,754,633
Total	\$ 10,568,330	\$ 11,412,015

The endowment net asset composition by type of fund is comprised of the following at December 31:

		2018		
		Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted				
Endowment Funds	\$	-	\$ 483,292	\$ 483,292
Board-Designated				
Endowment Funds		10,568,330	-	10,568,330
Total	\$	10,568,330	\$ 483,292	\$ 11,051,622

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 9 - ENDOWMENTS (continued)

		2017		
		Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted				
Endowment Funds	\$	-	\$ 483,292	\$ 483,292
Board-Designated				
Endowment Funds		11,412,015	-	11,412,015
Total	\$	11,412,015	\$ 483,292	\$ 11,895,307

Investment (loss) income consisted of the following for the years ended December 31:

	2018	2017
Interest and Dividends	\$ 675,378	\$ 598,093
Realized and Unrealized (Loss) Gain	(1,836,878)	1,171,447
Investment Fees	(122,324)	(111,349)
Total	\$ (1,283,824)	\$ 1,658,191

The Foundation had the following changes in endowment net assets for the years ended December 31:

		2018		
		Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets at Beginning of Year	\$	11,412,015	\$ 483,292	\$ 11,895,307
Investment Return:				
Investment Income		675,378	-	675,378
Net Depreciation in Value		(1,959,202)	-	(1,959,202)
Transfers into Board-Designated				
Endowment Funds		538,368	-	538,368
Amounts Appropriated for Expenditures		(98,229)	-	(98,229)
Endowment Net Assets at End of Year	\$	10,568,330	\$ 483,292	\$ 11,051,622

		2017		
		Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets at Beginning of Year	\$	9,802,785	\$ 483,292	\$ 10,286,077
Investment Return:				
Investment Income		598,093	-	598,093
Net Appreciation in Value		1,060,098	-	1,060,098
Transfers into Board-Designated				
Endowment Funds		22,068	-	22,068
Amounts Appropriated for Expenditures		(71,029)	-	(71,029)
Endowment Net Assets at End of Year	\$	11,412,015	\$ 483,292	\$ 11,895,307

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017. Retirement plan expenses totaled \$18,610 and \$7,849 for the years ended December 31, 2018 and 2017, respectively.

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 and maintenance of historic sites. In the event 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, 2018 and 2017, there were two state employees remaining and three state employees remaining, respectively. THC supported the Museum in the amount of \$200,000 for the years ended December 31, 2018 and 2017, which was used to pay state employees' salaries along with maintenance and operational expense assistance until fully expended. This amount is netted with salaries expense on the statement 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.

NOTE 12 - OPERATING LEASES

The Foundation leases office equipment and audio-visual equipment under leases that expire in fiscal year 2021. Expenses related to these leases were \$45,191 and \$73,302 for the years ended December 31, 2018 and 2017, respectively. These expenses are included in office supplies and exhibits and collections expense on the Foundation's statement of functional expenses.

Future payments under these agreements are as follows:

Years ending December 31,		
2019	\$	43,987
2020		43,586
2021		41,580
Total	\$	<u>129,153</u>

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of donor-stipulated restrictions and internal designations that are amounts set aside for operating and other reserves that could be drawn upon if the Board approves that action.

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 1,652,357	\$ 904,863
Restricted Cash and Cash Equivalents	500,558	492,888
Accounts Receivable	54,361	58,015
Unconditional Promises to Give, Net of Allowance for Uncollectible Contributions of \$6,000	261,251	444,401
Investments	2,855,726	3,000,136
Endowments	<u>10,663,519</u>	<u>11,414,374</u>
Total Financial Assets, Excluding Noncurrent Receivables	15,987,772	16,314,677
Board Designations	(10,568,330)	(11,412,015)
Donor Restrictions	<u>(2,811,998)</u>	<u>(2,622,949)</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ <u>2,607,444</u>	\$ <u>2,279,713</u>