

ADMIRAL NIMITZ FOUNDATION

FINANCIAL STATEMENTS

December 31, 2017

ADMIRAL NIMITZ FOUNDATION
FINANCIAL STATEMENTS
December 31, 2017

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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 statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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 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

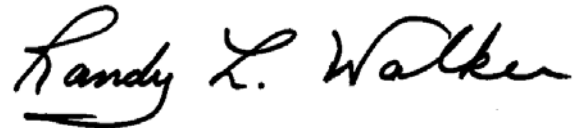
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2017, and the results of its operations and its cash flows for the year 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 8, 2018

ADMIRAL NIMITZ FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

| | | |
|--|----|-----------|
| Cash and Cash Equivalents | \$ | 904,863 |
| Restricted Endowment Cash and Cash Equivalents | | 492,888 |
| Receivables: | | |
| Accounts Receivable | | 58,015 |
| Unconditional Promises to Give, Net of Allowance for Uncollectable Contributions of \$6,000 | | 444,401 |
| Inventory | | 262,504 |
| Prepaid Expenses | | 51,002 |
| Total Current Assets | | 2,213,673 |

LONG-TERM ASSETS

| | | |
|-----------------------------|-----------|-------------------|
| Property and Equipment, Net | | 3,224,886 |
| Investments | | 3,000,136 |
| Long-Term Promises to Give | | 300,000 |
| Endowments | | 11,414,374 |
| Total Long-Term Assets | | 17,939,396 |
| TOTAL ASSETS | \$ | 20,153,069 |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|---------------------------|----|----------------|
| Accounts Payable | \$ | 167,121 |
| Accrued Expenses | | 3,639 |
| Deferred Revenue | | 74,026 |
| Total Current Liabilities | | 244,786 |
| TOTAL LIABILITIES | | 244,786 |

NET ASSETS

| | | |
|---|-----------|-------------------|
| Without Donor Restrictions | | |
| Undesignated | | 5,873,319 |
| Board-Designated | | 11,412,015 |
| Total Without Donor Restrictions | | 17,285,334 |
| With Donor Restrictions | | 2,622,949 |
| TOTAL NET ASSETS | | 19,908,283 |
| TOTAL LIABILITIES AND NET ASSETS | \$ | 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, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|--------------------------|
| <u>OPERATING REVENUE AND SUPPORT</u> | | | |
| Contributions, Grants, and Contracts | \$ 1,987,873 | \$ 1,784,370 | \$ 3,772,243 |
| General Admissions | 1,284,848 | - | 1,284,848 |
| Store Sales, Net of Cost of Goods Sold of \$338,059 | 359,583 | - | 359,583 |
| Other Program Service Fees | 229,271 | - | 229,271 |
| Memberships | 178,871 | - | 178,871 |
| Special Events, Net of Direct Expenses of \$187,002 | 138,757 | - | 138,757 |
| Memorial Wall and Veterans Walk | 93,381 | - | 93,381 |
| Facility Rentals | 35,546 | - | 35,546 |
| Net Assets Released from Restrictions | 1,007,381 | (1,007,381) | - |
| TOTAL OPERATING REVENUE AND SUPPORT | 5,315,511 | 776,989 | 6,092,500 |
| <u>OPERATING EXPENSES</u> | | | |
| Program Services | 4,665,847 | - | 4,665,847 |
| General and Administrative | 589,171 | - | 589,171 |
| Fundraising and Development | 589,883 | - | 589,883 |
| TOTAL OPERATING EXPENSES | 5,844,901 | - | 5,844,901 |
| TOTAL OPERATING INCOME | (529,390) | 776,989 | 247,599 |
| <u>NON-OPERATING REVENUES</u> | | | |
| Investment Income, Net | 1,671,351 | - | 1,671,351 |
| TOTAL NON-OPERATING REVENUES | 1,671,351 | - | 1,671,351 |
| CHANGE IN NET ASSETS | 1,141,961 | 776,989 | 1,918,950 |
| NET ASSETS, Beginning of Year | 16,143,373 | 1,845,960 | 17,989,333 |
| NET ASSETS, End of Year | \$ 17,285,334 | \$ 2,622,949 | \$ 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, 2017

| | Program Services | | | | | Support Services | | | Total |
|------------------------------------|---------------------|------------------|---------------------------------------|-----------------------|------------------------------|-------------------------------|--------------------------------|------------------------------|---------------------|
| | Museum Operating | Memberships | Memorial Walk and Veterans Walk | Retail and Rentals | Total Program Services | General and Administrative | Fundraising and Development | Total Support Services | |
| EXPENSES | | | | | | | | | |
| Salaries and Wages | \$ 927,866 | \$ - | \$ - | \$ 248,025 | \$ 1,175,891 | \$ 207,510 | \$ - | \$ 207,510 | \$ 1,383,401 |
| Employee Benefits | 339,228 | - | - | 35,837 | 375,065 | 36,813 | - | 36,813 | 411,878 |
| Payroll Taxes | 73,098 | - | - | 19,732 | 92,830 | 16,382 | - | 16,382 | 109,212 |
| Total Payroll Expenses | 1,340,192 | - | - | 303,594 | 1,643,786 | 260,705 | - | 260,705 | 1,904,491 |
| Museum Enhancements | 1,966,447 | - | - | - | 1,966,447 | - | - | - | 1,966,447 |
| Printing and Publications | 142,502 | 6,173 | - | - | 148,675 | - | 188,899 | 188,899 | 337,574 |
| Postage and Freight | 118 | 34,644 | - | - | 34,762 | 6,334 | 273,588 | 279,922 | 314,684 |
| Marketing | 47,615 | 6,549 | - | - | 54,164 | 142,664 | 105,396 | 248,060 | 302,224 |
| Exhibits and Collections | 136,158 | - | - | - | 136,158 | - | - | - | 136,158 |
| Utilities | 124,230 | - | - | 4,159 | 128,389 | 2,090 | - | 2,090 | 130,479 |
| Program Service Fees | 65,626 | 1,724 | 27,658 | - | 95,008 | - | - | - | 95,008 |
| Informational Technology | 54,515 | - | - | 7,771 | 62,286 | 15,592 | - | 15,592 | 77,878 |
| Professional Fees | 46,696 | - | - | 15,565 | 62,261 | 15,566 | - | 15,566 | 77,827 |
| Repairs and Maintenance | 55,030 | - | - | 680 | 55,710 | 350 | - | 350 | 56,060 |
| Credit Card Fees | 26,182 | - | - | 18,277 | 44,459 | 8,649 | - | 8,649 | 53,108 |
| Insurance | 25,192 | - | - | 8,397 | 33,589 | 8,398 | - | 8,398 | 41,987 |
| Software | 25,003 | - | - | 7,115 | 32,118 | 9,094 | - | 9,094 | 41,212 |
| Educational Programs | 37,455 | - | - | - | 37,455 | - | - | - | 37,455 |
| Computer | 1,699 | - | - | 1,751 | 3,450 | 10,629 | 22,000 | 32,629 | 36,079 |
| Telephone | 23,792 | - | - | 1,076 | 24,868 | 5,805 | - | 5,805 | 30,673 |
| Office Supplies | 13,123 | - | - | 2,372 | 15,495 | 9,090 | - | 9,090 | 18,585 |
| Supplies | 20,723 | - | - | 24 | 20,747 | 29 | - | 29 | 24,585 |
| Strategic Initiatives | 18,585 | - | - | - | 18,585 | - | - | - | 20,776 |
| Property Costs | - | - | - | - | - | 15,932 | - | 15,932 | 15,932 |
| Travel | 8,967 | - | - | 2,020 | 10,987 | 280 | - | 280 | 11,267 |
| Continuing Education | 4,802 | - | - | - | 4,802 | 714 | - | 714 | 5,516 |
| Dues and Subscriptions | 2,403 | - | - | 165 | 2,568 | 739 | - | 739 | 3,307 |
| Website | 1,205 | - | - | - | 1,205 | - | - | - | 1,205 |
| Total Expenses Before Depreciation | 4,188,260 | 49,090 | 27,658 | 372,966 | 4,637,974 | 512,660 | 589,883 | 1,102,543 | 5,740,517 |
| Depreciation | 13,342 | - | - | 14,531 | 27,873 | 76,511 | - | 76,511 | 104,384 |
| TOTAL EXPENSES | \$ 4,201,602 | \$ 49,090 | \$ 27,658 | \$ 387,497 | \$ 4,665,847 | \$ 589,171 | \$ 589,883 | \$ 1,179,054 | \$ 5,844,901 |

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

ADMIRAL NIMITZ FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|-------------------------|
| Increase in Net Assets from Operations | \$ 1,918,950 |
| Adjustments to Reconcile Net Change to Net Cash | |
| Provided by Operations: | |
| Depreciation | 104,384 |
| Net realized and unrealized gains on investments | (1,147,060) |
| Decrease (Increase) in Assets: | |
| Accounts Receivable | 15,281 |
| Unconditional Promises to Give | 610,949 |
| Inventory | 63,992 |
| Prepaid Expenses | (28,100) |
| (Decrease) Increase in Liabilities: | |
| Accounts Payable | (62,636) |
| Accrued Expenses | (2,103) |
| Deferred Revenue | 20,521 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,494,178</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------------------|
| Purchases and Reinvestments | (3,748,508) |
| Proceeds from Sale of Investments | 156,490 |
| Purchases of Fixed Assets | (76,518) |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(3,668,536)</u> |

| | |
|---|-----------------------------------|
| NET DECREASE IN CASH FLOWS | (2,174,358) |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, Beginning of Year | <u>3,572,109</u> |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, End of Year | <u><u>\$ 1,397,751</u></u> |

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

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 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 statement 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

Under these provisions, net assets and revenue, expenses, gains and losses are classified into two categories based upon the following criteria:

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 are reported as net assets without donor restrictions, board-designated.

Net assets with donor restrictions – Net assets subject to donor restrictions that may or will be met either by actions of the Foundation and/or the passage of time. 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, 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 cash and cash equivalents.

Endowments

Investments in endowments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the statement of financial position. Unrealized gains and losses are included in the statement 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. 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 uncollectability 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, 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.

Significant Concentrations

At December 31, 2017, one receivable for credit card payments not yet posted to the Foundation's bank accounts made up 80 percent of total accounts receivable, and three individual pledges comprised 94 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).

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year ended December 31, 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 year ended December 31, 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 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.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 salaries and benefits 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 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, 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, 2014.

Marketing

Marketing costs totaled \$302,224 for the year ended December 31, 2017 and are expensed as incurred.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 has adopted this policy for the year ended December 31, 2017.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 for the year ended December 31, 2017.

Subsequent Events

The Foundation has evaluated subsequent events through May 8, 2018, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications are due to the adoption of Accounting Standards Update 2016-14, as discussed above, which require two classifications of net assets from the previously reported three classes. Net assets, previously classified at December 31, 2016 as “unrestricted” and are now classified as “without donor restrictions”. Net assets previously classified as “temporarily restricted” and “permanently restricted” are now classified as “with donor restrictions”. The reclassifications had no effect on the previously reported change in net assets.

Investments

Investments traded on capital markets are carried at estimated fair value. Investments held at The Community Foundation of the Texas Hill Country are measured at Net Asset Value (NAV). Investment income is reported net of fees of \$118,257 for the year ended December 31, 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 \$638,242 at December 31, 2017, irrespective of reconciling items.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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:

- 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, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|----------------------|----------------|----------------|--------------|
| 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 | <u>\$ 14,133,762</u> | <u>\$ -</u> | <u>\$ -</u> | 14,133,762 |

Endowments measured at NAV:

| | |
|-------------------|----------------------|
| Mutual Funds | <u>280,748</u> |
| Total Investments | <u>\$ 14,414,510</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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at December 31, 2017:

| | |
|---|-------------------|
| Gross Amounts Due in: | |
| One Year or Less | \$ 450,401 |
| One to Five Years | 300,000 |
| Total Unconditional Promises to Give | <u>750,401</u> |
| Less Allowance for Uncollectible Promises | (6,000) |
| Net Unconditional Promises to Give | <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, 2017:

| | |
|-------------------------------|---------------------|
| Land | \$ 891,483 |
| Buildings and Improvements | 2,341,378 |
| Equipment | 433,395 |
| Furniture and Fixtures | 137,049 |
| Website | 20,537 |
| | <u>3,823,842</u> |
| Less Accumulated Depreciation | (598,956) |
| Total | <u>\$ 3,224,886</u> |

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31, 2017:

| | |
|--|---------------------|
| Subject to donor-imposed restrictions: | |
| Nimitz Renovation | \$ 1,614,951 |
| Digitization and Distinguished Speaker Series | 304,569 |
| Tour-Mate | 100,000 |
| Living History and Other | 60,480 |
| Fund-a-need | 33,400 |
| Nimitz Dinner and Leadership | 15,000 |
| Sons and Daughters | 11,257 |
| Total Net Assets with Donor-Imposed Restrictions | <u>2,139,657</u> |
| Endowment: | |
| McDougall Endowment | <u>483,292</u> |
| Total Endowment | <u>483,292</u> |
| Total Net Assets with Donor Restrictions | <u>\$ 2,622,949</u> |

Total net assets released from restrictions were \$1,007,381 for the year ended December 31, 2017.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 at December 31, 2017:

| | | |
|----------------------------|----|---------|
| Program | \$ | 134,315 |
| General and Administrative | | 8,311 |
| Fundraising | | 562,450 |
| Total | \$ | 705,076 |

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 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 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.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - ENDOWMENTS (continued)

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, 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.

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.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 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 \$492,888 at December 31, 2017.

Net assets without donor restrictions, board-designated for endowments, consisted of the following at December 31, 2017:

| | | |
|----------------------|----|-------------------|
| McDougall Endowment | \$ | 80,274 |
| Foundation Endowment | | 6,296,360 |
| Community Endowment | | 280,748 |
| Museum Endowment | | 4,754,633 |
| Total | \$ | <u>11,412,015</u> |

The endowment net asset composition by type of fund is comprised of the following at December 31, 2017:

| | | <u>Without Donor Restrictions</u> | | <u>With Donor Restrictions</u> | | <u>Total</u> |
|------------------|----|---------------------------------------|----|------------------------------------|----|-------------------|
| Donor-Restricted | | | | | | |
| Endowment Funds | \$ | - | \$ | 483,292 | \$ | 483,292 |
| Board-Designated | | | | | | |
| Endowment Funds | | 11,412,015 | | - | | 11,412,015 |
| | \$ | <u>11,412,015</u> | \$ | <u>483,292</u> | \$ | <u>11,895,307</u> |

Investment income from endowments consisted of the following for the year ended December 31, 2017:

| | | |
|-------------------------------|----|------------------|
| Interest and Dividends | \$ | 598,093 |
| Realized and Unrealized Gains | | 1,171,447 |
| Investment Fees | | (111,349) |
| Total | \$ | <u>1,658,191</u> |

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - ENDOWMENTS (continued)

The Foundation had the following changes in endowment net assets for the year ended December 31, 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 | <u>\$ 11,412,015</u> | <u>\$ 483,292</u> | <u>\$ 11,895,307</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 year ended December 31, 2017. Retirement plan expenses totaled \$7,849 for the year ended December 31, 2017.

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. At December 31, 2017, there were two state employees remaining. THC supported the Museum in the amount of \$200,000 for the year ended December 31, 2017, which was used to pay state employees' salaries and related expenses 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 \$73,302 for the year ended December 31, 2017. These expenses are included in office supplies and exhibits and collections expense on the Foundation's statement of functional expenses.

ADMIRAL NIMITZ FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 12 - OPERATING LEASES (continued)

Future payments under these agreements are as follows:

| Years ending December 31, | | | |
|---------------------------|----|---------|--|
| 2018 | \$ | 43,987 | |
| 2019 | | 43,987 | |
| 2020 | | 43,586 | |
| 2021 | | 41,580 | |
| Total | \$ | 173,140 | |

NOTE 13 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at December 31, 2017:

| | | |
|--|----------|-----------|
| Cash and Cash Equivalents | \$ | 904,863 |
| Accounts Receivable | | 58,015 |
| Current Unconditional Promises to Give | | 444,401 |
| Operating Investments | | 3,000,136 |
| | Total \$ | 4,407,415 |

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Funds available for operations within one year of the statement of financial position date were further reduced by current liabilities of \$244,786 at December 31, 2017.