

**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018**

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
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**DECEMBER 31, 2018**

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Naval Aviation Museum Foundation, Inc. and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Naval Aviation Museum Foundation, Inc. and Subsidiaries (a nonprofit corporation) (Foundation), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Warren Averett, LLC*

Pensacola, Florida

May 9, 2019

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**  
(In thousands of dollars)

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	643
Unconditional promises to give, net		375
Inventories		678
Prepaid expenses		178
Accounts receivable		37

Total current assets		1,911
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**NON-CURRENT ASSETS**

Investments		14,107
Beneficial interest in perpetual trust		1,103
Unconditional promises to give, net		171
Property and equipment, net		5,524
Other assets		48

Total non-current assets		20,953
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**TOTAL ASSETS**

	\$	22,864
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	246
Accrued wages and compensated absences		247
Line of credit		350
Notes payable		238
Deferred revenue		304

Total current liabilities		1,385
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**LONG-TERM LIABILITIES**

Notes payable		886
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**TOTAL LIABILITIES**

		2,271
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**NET ASSETS**

Without donor restrictions		11,989
With donor restrictions		8,604

**TOTAL NET ASSETS**

		20,593
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**TOTAL LIABILITIES AND NET ASSETS**

	\$	22,864
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See notes to the consolidated financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(In thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Sales, special events, tuition and admissions	\$ 7,779	\$ -	\$ 7,779
Contributions and memberships	1,707	187	1,894
Investment income	130	215	345
Investment gains (losses)	(692)	(840)	(1,532)
Increase (decrease) in interest in perpetual trust	-	(107)	(107)
Miscellaneous income	7	-	7
Net assets released from restrictions	681	(681)	-
Total revenue and other support	9,612	(1,226)	8,386
<b>EXPENSES</b>			
Program services			
Museum Support	5,509	-	5,509
Education Support	4,470	-	4,470
Support services			
Administration	574	-	574
Fundraising	524	-	524
Total expenses	11,077	-	11,077
<b>CHANGE IN NET ASSETS</b>	(1,465)	(1,226)	(2,691)
<b>NET ASSETS, BEGINNING OF YEAR</b>	13,454	9,830	23,284
<b>NET ASSETS, END OF YEAR</b>	\$ 11,989	\$ 8,604	\$ 20,593

See notes to the consolidated financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(In thousands of dollars)

	Program Services		Support Services		Total
	Museum Support	Education Support	Administration	Fundraising	
Advertising and marketing	\$ 275	\$ 74	\$ -	\$ 15	\$ 364
Bad debt (recovery)	-	(45)	-	-	(45)
Bank, broker, and credit card charges	132	22	4	4	162
Depreciation and amortization	286	991	37	-	1,314
Direct costs and costs of sales	1,826	1,486	-	2	3,314
Event expense	-	-	-	56	56
Insurance	14	166	57	-	237
Interest expense	44	4	-	-	48
MIS support	65	72	63	4	204
Office supplies	119	12	33	37	201
Other expenses	26	213	30	28	297
Professional services	5	6	34	-	45
Repairs and maintenance	132	163	1	1	297
Restoration and museum projects	421	-	-	-	421
Salaries and benefits	2,021	1,116	271	365	3,773
Travel	11	26	2	11	50
Utilities and telephone	132	164	42	1	339
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 5,509</b>	<b>\$ 4,470</b>	<b>\$ 574</b>	<b>524</b>	<b>\$ 11,077</b>

See notes to the consolidated financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(In thousands of dollars)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$	(2,691)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense		1,314
Net realized and unrealized (gain) loss on investments		1,819
Beneficial interest in perpetual trust		126
(Increase) decrease in assets:		
Unconditional promises to give		311
Inventories		50
Prepaid expenses		(60)
Accounts receivable		65
Other assets		(2)
Increase (decrease) in liabilities:		
Accounts payable		79
Accrued wages and compensated absences		(27)
Deferred revenue		62
		1,046
Net cash provided by operating activities		1,046

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of capital assets		(326)
Purchase of investments		(2,656)
Proceeds from sale of investments		1,340
		1,340
Net cash used in investing activities		(1,642)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from line of credit		425
Principal payments on line of credit		(325)
Principal payments on note payable		(202)
		(202)
Net cash used in financing activities		(102)

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (698)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 1,341

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 643

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid for interest \$ 48

See notes to the consolidated financial statements.



**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Operations**

The Naval Aviation Museum Foundation, Inc. (Foundation) was incorporated in Florida in 1966 as a “nonprofit” corporation. The Foundation was organized to foster and perpetuate the National Naval Aviation Museum (Museum) as a medium of informing and educating the public about the important role of United States Naval Aviation; to inspire students undergoing naval flight training to complete training and become career officers; to serve as a philanthropic corporation in assisting the development and expansion of the facilities of the Museum; and to receive, hold, and administer gifts received from persons, other organizations, corporations, foundations, and philanthropies in the best interest of the Foundation.

The Foundation further supports the Museum by providing funding and services necessary for its day to day operation. This includes funding of Museum exhibits and displays, and services related to aircraft restoration, custodial, marketing activities including radio and television ads and promotional billboards, maintenance of the Museum’s website and social media, library and other support activities. Through its wholly owned subsidiary, Foundation Museum Support, LLC (FMSC), the Foundation also provides various program services within the Museum, such as the Giant Screen Theater (Theater), MaxFlight and Motion Based Simulators, the Blue Angels 4D Theater, Flight Deck gift shop and Navalaviation.com. Proceeds from these programs are used to support the Foundation and Museum.

The Foundation’s wholly owned subsidiary, National Flight Academy, LLC (NFA), is an educational program, authorized but not endorsed or financially supported, by the United States Navy. NFA is designed to address the serious concerns of declining Science, Technology, Engineering, and Math (STEM) skills and standards in our country. The STEM concepts are taught using a hands-on approach in both real and virtual settings. NFA’s mission is to inspire students who subsequently return to their parent schools and seek out the more challenging courses in STEM.

Under agreements with the Navy, the Foundation is provided, without cost, office space in the Museum, floor space for operation of the Foundation’s attraction programs, and use of NFA. These agreements also govern operational programs conducted at the Museum and NFA by the Foundation. Additionally, the Foundation must file an annual financial report with the Navy and make provision in the Foundation’s annual budget to provide fiscal support of Museum programs.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Foundation and its two wholly owned subsidiaries, NFA and FMSC. All material intercompany transactions are eliminated upon consolidation.

**Basis of Accounting**

The Foundation follows standards of accounting and financial reporting prescribed for nonprofit organizations in accordance with accounting principles generally accepted in the United States of America (GAAP). The Foundation uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Presentation**

Under the provisions of generally accepted accounting principles, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restriction are not subject to donor-imposed stipulations. Board designated or appropriated amounts are legally unrestricted and are reported as part of the net assets without donor restriction class.

Net assets with donor restriction are subject to donor-imposed stipulations that include time and/or purpose restrictions.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased within three months of maturity to be cash equivalents.

**Unconditional Promises to Give**

Unconditional promises to give are stated in the statement of financial position at their estimated realizable value. The Foundation accounts for bad debts using the allowance method. Unconditional promises to give with due dates extending beyond one year are discounted at the United States long-term inflationary rate.

**Inventory**

Inventory consists of items available for sale in the Flight Deck gift shop, as well as for web sales at Navalaviation.com and is stated at the lower of cost (using the average cost method) or net realizable value.

**Investments**

Investments consist of certificates of deposit with original maturities in excess of three months, debt and marketable equity securities, mutual funds, annuities and hedge funds. All gains and losses arising from the sale, collection, or other disposition of investments are based on the specific identification method.

The Foundation considers various inputs when determining the fair value of its investments. The inputs are summarized in three broad levels listed below:

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)
- Level 3 – significant unobservable inputs. The Foundation does not have any investments considered level 3 as of December 31, 2018.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Property and Equipment**

Property and equipment are recorded at cost, except for donated property or equipment, which is recorded as a contribution at estimated fair market value on the date of receipt. Assets costing \$5 thousand or more are capitalized and depreciated over their estimated service lives on a straight-line basis. Leasehold improvements are depreciated over the life of the lease or the estimated useful life of the asset, whichever is shorter. The Foundation does not imply a time restriction on gifts of long-lived assets received. The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

**Buildings and Aircraft Collections**

The Museum is housed in buildings, which were purchased with funds raised through the Foundation. The cost of these buildings is expensed as a transfer to the U.S. Navy since they are constructed on land owned by the Navy.

The Museum has extensive collections of aircraft and artifacts that constitute a record of aviation in the United States. 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 aviation history collections in the United States. Costs to refurbish these aircraft are recognized as expense when incurred.

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

**Revenue Recognition**

Contributions, including scholarship donations at NFA, are recognized when a donor makes a *promise to give* to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions in the year in which the restrictions expire.

All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Sales, special events revenue, and admissions are recognized as services are performed. Membership and tuition revenues collected in advance are deferred until the services are provided. Membership revenue is recognized over the life of the membership on a straight-line basis. Tuition revenue is recognized in the period the participant completes the program. Grant revenue is recognized when performance occurs under the terms of the grant agreement.

The Foundation, at times, is notified that it has been named as the beneficiary in the estate of certain individuals under revocable agreements. Such amounts are recorded as contributions upon the passing of the donor and as the amounts become irrevocable.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Functional Allocation of Expenses**

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, costs have been allocated among the program and supporting services benefited. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; occupancy costs and depreciation, which are allocated on a weighted average square footage basis; and supplies, which are allocated based on average employee headcount.

**Advertising Costs**

Advertising costs are expensed as incurred and totaled approximately \$364 thousand in 2018.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Tax Exemption**

The Internal Revenue Service has determined the Foundation to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has been classified as a publicly supported organization, which is not a private organization under Section 509(a) of the Code. The Foundation is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with GAAP.

**New Accounting Pronouncement**

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Foundation implemented the provisions of this new standard in 2018. In addition to changes in terminology used to describe categories of net assets, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses.

**Subsequent Events**

The Foundation has evaluated events and transactions that occurred between December 31, 2018 and May 9, 2019, which is the date that financial statements were available to be issued for possible recognition or disclosure in the financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**2. CONCENTRATION OF RISK**

Concentration of credit risk with respect to donor promises to give exists as two donors comprise 100% of the outstanding balance as of December 31, 2018.

**3. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at December 31, 2018, consisted of the following:

Amounts due (in thousands):

Within one year	\$ 375
In one to five years	200
	575
Less: Present value discount and allowance for uncollectible accounts	(29)
Total promises to give	\$ 546

**4. CASH AND INVESTMENTS**

NAMF and NFA entered into a Commercial Sweep Service agreement with Regions Bank during 2018. This agreement allows funds in the respective bank accounts to be automatically transferred and invested into the Fidelity Treasury Portfolio at the close of each business day. A portion of this portfolio is invested in United States Treasury Bills that are backed by the United States government.

Investments at December 31, 2018, consisted of the following (in thousands of dollars):

*The Naval Aviation Museum Foundation and Foundation Museum Support*

	<b>Fair Market Value</b>
Certificate of deposit	\$ 124
Equities and mutual funds (level 1)	11,514
Hedge funds (level 2)	1,177
Annuities (level 2)	1,292
	\$ 14,107

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**4. CASH AND INVESTMENTS – CONTINUED**

The Foundation uses the following valuation techniques to determine the fair value of its investments:

Certificate of deposit: Valued at cost plus accrued interest, which approximates fair value due to the short-term nature of these investments.

Equities and mutual funds: Determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Hedge funds: These funds invest in marketable securities that trade in well-established and highly-liquid markets (stocks, bonds, futures, options, etc.). Independent pricing services are used to obtain daily position prices. These prices are used to determine the value of the multi-fund pool (hedge fund). Once the hedge fund valuation is established, the individual investor valuations are calculated based on their ownership share of each pool.

Annuity contracts: Determined by prices and other relevant information generated by market transactions involving comparable instruments. The prices and other relevant information used are adjusted based on the risk and benefits of the annuity contracts in order to arrive at the fair market value.

There were no changes in the valuation techniques during the year.

As of December 31, 2018, investment gains and (losses) on the consolidated statement of activities is net of custodial and investment advisory fees of approximately \$103 thousand.

**5. BENEFICIAL INTEREST TRUST**

The Foundation is the beneficiary of a perpetual trust, which is administered by a financial institution. The Foundation receives income distributions from the perpetual trust quarterly and has no access to the corpus. Perpetual trust assets totaling approximately \$1.1 million are recorded in the statement of financial position as net assets with donor restrictions.

At year-end, the perpetual trust included approximately \$38 thousand in cash and cash equivalents, approximately \$720 thousand in equity securities, and approximately \$345 thousand in debt securities. The perpetual trust is valued at fair market value and is comprised of equities and mutual funds (level 1). Distributions to the Foundation from the perpetual trust for the year totaled approximately \$31 thousand.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**6. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2018, consisted of the following (in thousands of dollars):

The Naval Aviation Museum Foundation and Foundation Museum Support

	<b>Useful lives</b>			
Office, simulators and theater equipment and furnishings	3 - 15 years	\$	3,323	
Less: accumulated depreciation			(1,531)	
		<b>\$</b>	1,792	

National Flight Academy

Office Equipment and furnishings	3 - 15 years	\$	6,084	
Flight academy curriculum	7 - 15 years		1,054	
Software	3 - 15 years		2,212	
Website	3 years		47	
Leasehold improvements	15 years		2,464	
			11,861	
Less: accumulated depreciation			(8,129)	
		<b>\$</b>	3,732	

**7. LINE OF CREDIT**

NFA has a \$500 thousand line of credit with a bank maturing on August 4, 2019. The rate of interest is prime plus 1.45% with a floor of 4.95%. The line is secured by NFA's equipment and unconditional promises to give. At December 31, 2018, \$350 thousand was outstanding on the line of credit.

**8. NOTES PAYABLE**

In October 2015, the Foundation entered into a promissory note with a bank in the amount of \$1.5 million with an interest rate of 3.75%. The proceeds from the note were utilized to renovate the Theater, which was operational in March 2016. The terms of the note included six consecutive interest only installments, with the last interest only installment due on April 6, 2016, at which time the note converted to a seven year repayment term with final payment due on April 6, 2023. The note includes certain affirmative covenants including an unrestricted funds debt service coverage ratio. There are additional affirmative and negative covenants, which include notifying the lender of claims or litigation, maintaining adequate insurance, providing audited financial statements to the lender, and other compliance requirements. The note is secured by the Theater equipment acquired as part of the renovation. The balance outstanding at December 31, 2018, was \$976 thousand. As of December 31, 2018, the Foundation is in compliance with its covenants.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**8. NOTES PAYABLE - CONTINUED**

In May 2018, the Foundation entered into a promissory note with a third-party in the amount of \$148 thousand. The note is amortized over an eight year period and matures on May 31, 2026. The note is secured by equipment. The balance outstanding at December 31, 2018, was \$148 thousand.

Scheduled maturities of notes payable at December 31, 2018 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2019	\$ 238
2020	238
2021	246
2022	255
2023	93
Thereafter	54
	<u>\$ 1,124</u>

**9. EMPLOYEE BENEFITS**

The Foundation has a Safe Harbor 401(k) plan, which covers employees who have completed three months of service and who are at least 21 years of age. Employees may contribute up to the lesser of \$18 thousand or 50% of their eligible salaries into the plan. The Foundation makes a fully vested matching contribution equal to 100% of the first 4% of compensation each participant contributes to the plan each payroll period. The Foundation made matching contributions to the plan in 2018 of approximately \$65 thousand.

**10. NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2018, net assets with donor restrictions consists of the following (in thousands of dollars):

Subject to expenditure for specified purpose:	
Scholarships	\$ 30
Restoration of aircraft and exhibits	276
Special events	11
Museum support	155
Membership	247
Subject to the Foundation's spending policy and appropriation:	
Endowment funds restricted in perpetuity	6,782
Subject to restriction in perpetuity:	
Beneficial interest in perpetual trust	1,103
	<u>\$ 8,604</u>



**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES  
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS  
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**11. ENDOWMENT**

The Foundation's endowment consists of individual funds established for scholarships, support of the Museum, and the Foundation's annual Symposium.

**Interpretation of Relevant Law**

The State of Florida adopted the Uniform Prudent Management of Institutional Funds Act of 1972 (UPMIFA) effective June 17, 2012. The Foundation currently classifies as net assets with donor restrictions (a) the original value of the gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment (if any) and (c) accumulation to the restricted endowment made in accordance with the direction of the applicable donor gift instrument.

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

- (1) The duration and preservation of the fund.
- (2) The purpose of the organization and donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Foundation.
- (7) The investment policies of the Foundation.

The following depicts the endowment funds (in thousands of dollars), as well as the activity for the endowment funds, for the year ended December 31, 2018:

	<b>Donor- restricted Endowment (Net Assets with Donor Restrictions)</b>
Endowment net assets, beginning of year	\$ 6,680
Contributions	102
Endowment net assets, end of year	<u>\$ 6,782</u>

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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## **11. ENDOWMENT – CONTINUED**

### **Return Objectives and Risk Parameters**

The Foundation's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Foundation, the Board of Directors has taken into account the financial needs and circumstances of the Foundation, the time horizon available for investment, the nature of the Foundation's cash flows and liabilities, and other factors that affect their risk tolerance.

### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation has determined that the investment of the assets shall be guided by the following underlying principles: (a) to achieve a positive rate of return over the long term that would significantly contribute to the cash flow needs of the Foundation for ongoing operations and capital projects; (b) to provide for asset growth at a rate in excess of the rate of inflation; (c) to diversify the assets in order to reduce the risk of wide swings in market value from year to year or of incurring large losses that could occur from concentrated positions; and (d) to achieve investment results over the long term that compare favorably with those of other endowments and foundations, professionally managed portfolios and of appropriate market indexes.

### **Spending Policy and How the Investment Objectives Relate to the Spending Policy**

The Foundation uses the following principles for their Spending Policy:

- (1) The Board approves the Foundation's general spending practices.
- (2) Foundation revenue generating functions should substantially fund Foundation operations.
- (3) The current spending policy for scholarships is to distribute amounts equal to donor specifications.
- (4) Strict adherence to donor gift instructions is mandatory.
- (5) Absent donor gift instructions to the contrary and as permitted by pertinent law, income and capital appreciation related to restricted assets may be used to fund Foundation operating needs. Absent specific Board approval of this funding, in any year, will not exceed 5% of the market value of the fund averaged over the preceding three years.

## **12. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Foundation has a policy to manage its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**12. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS – CONTINUED**

The following table reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year.

Cash and cash equivalents	\$ 643
Accounts receivable, net, collected in less than one year	37
Pledges receivable, net, collected in less than one year	375
Investments	14,107
Beneficial interest in perpetual trust	1,103
Total financial assets, excluding noncurrent receivables	<u>16,265</u>
Contractual or donor-imposed restrictions:	
Endowment fund investments	(6,782)
Beneficial interest in perpetual trust	(1,103)
Other donor restrictions	<u>(719)</u>
Financial assets available to meet cash needs for expenditures within one year	<u><u>\$ 7,661</u></u>

**13. COMMITMENTS**

The Foundation operates the Motion Based Simulator under a profit-sharing agreement with Flight Avionics of North America, Inc. (FANA). The Foundation and FANA evenly split profits derived from operation of the simulator. Losses, if any, are absorbed 100% by FANA. The amount paid to FANA during 2018 under the profit-sharing arrangement was approximately \$86 thousand.

The Foundation has a lease agreement with the Naval Facilities Engineering Command Atlantic (NAVFAC LANT) for the use of the NFA building. The lease is effective until December 31, 2061. Under the terms of the lease, the Foundation is responsible for the NFA building interior and exterior maintenance costs.

**14. LITIGATION**

The Foundation is subject to a variety of claims and lawsuits that arise from time to time in the ordinary course of business. In the opinion of management, there are no lawsuits or claims outstanding, which could have a material adverse effect on the financial position or activities of the Foundation.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**15. RELATED PARTY TRANSACTIONS**

The Foundation received contributions of approximately \$42 thousand from its Board of Directors and related committees during 2018. As of December 31, 2018, the Foundation has outstanding pledges receivable of approximately \$475 thousand from a company whose management serves on its Board of Directors and related committees.

**16. SUBSEQUENT EVENT**

In February 2019, NFA's line of credit was brought to zero and remained at zero through May 9, 2019.

## **SUPPLEMENTARY INFORMATION**

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**  
(In thousands of dollars)

	<u>NAMF</u>	<u>Support</u>	<u>NFA</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 461	\$ 149	\$ 33	\$ -	\$ 643
Unconditional promises to give, net	75	-	300	-	375
Inventories	-	678	-	-	678
Prepaid expenses	28	60	90	-	178
Due from other subsidiaries	176	136	3	(315)	-
Accounts receivable	-	-	37	-	37
Total current assets	<u>740</u>	<u>1,023</u>	<u>463</u>	<u>(315)</u>	<u>1,911</u>
<b>NON-CURRENT ASSETS</b>					
Investments	12,815	1,292	-	-	14,107
Beneficial interest in perpetual trust	1,103	-	-	-	1,103
Unconditional promises to give, net	-	-	171	-	171
Property and equipment, net	179	1,613	3,732	-	5,524
Other assets	-	48	-	-	48
Total non-current assets	<u>14,097</u>	<u>2,953</u>	<u>3,903</u>	<u>-</u>	<u>20,953</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 14,837</u></u>	<u><u>\$ 3,976</u></u>	<u><u>\$ 4,366</u></u>	<u><u>\$ (315)</u></u>	<u><u>\$ 22,864</u></u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 44	\$ 138	\$ 64	\$ -	\$ 246
Accrued wages & compensated absences	89	97	61	-	247
Due to other subsidiaries	138	175	2	(315)	-
Line of credit	-	-	350	-	350
Note payable	-	219	19	-	238
Deferred revenue	79	-	225	-	304
Total current liabilities	<u>350</u>	<u>629</u>	<u>721</u>	<u>(315)</u>	<u>1,385</u>
<b>LONG-TERM LIABILITIES</b>					
Note payable	-	757	129	-	886
Total long-term liabilities	<u>-</u>	<u>757</u>	<u>129</u>	<u>-</u>	<u>886</u>
<b>TOTAL LIABILITIES</b>	<u>350</u>	<u>1,386</u>	<u>850</u>	<u>(315)</u>	<u>2,271</u>
<b>NET ASSETS</b>	<u>14,487</u>	<u>2,590</u>	<u>3,516</u>	<u>-</u>	<u>20,593</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 14,837</u></u>	<u><u>\$ 3,976</u></u>	<u><u>\$ 4,366</u></u>	<u><u>\$ (315)</u></u>	<u><u>\$ 22,864</u></u>

See independent auditors' report.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

(In thousands of dollars)

	<u>NAMF</u>	<u>Support</u>	<u>NFA</u>	<u>Consolidated</u>
<b>REVENUES AND OTHER SUPPORT</b>				
Sales, special events, tuition and admissions	\$ 123	\$ 4,825	\$ 2,831	\$ 7,779
Contributions and memberships	1,472	263	159	1,894
Investment income	341	-	4	345
Investment gains (losses)	(1,384)	(148)	-	(1,532)
Increase (decrease) in interest in perpetual trust	(107)	-	-	(107)
Miscellaneous income	6	1	-	7
Total revenues and other support	451	4,941	2,994	8,386
<b>EXPENSES</b>				
Program services				
Museum support	433	5,076	-	5,509
Education support	-	-	4,470	4,470
Support services				
Administration	574	-	-	574
Fundraising	524	-	-	524
Total expenses	1,531	5,076	4,470	11,077
<b>OTHER INCOME (EXPENSE)</b>				
Transfers between subsidiaries	652	(652)	-	-
Total other income (expense)	652	(652)	-	-
<b>CHANGE IN NET ASSETS</b>	(428)	(787)	(1,476)	(2,691)
<b>NET ASSETS, BEGINNING OF YEAR</b>	14,915	3,377	4,992	23,284
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 14,487</u>	<u>\$ 2,590</u>	<u>\$ 3,516</u>	<u>\$ 20,593</u>

See independent auditors' report.

**CLIENT PROVIDED SCHEDULE**

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF DIVISIONAL INCOME & EXPENSES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2018  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2017

( In thousands of dollars)

	Museum support		Education		Administration		Fundraising		Totals	
	Museum Support	Public Awareness	Fund Generators	Flight Academy	Investment Activity	Admin	Dev	Member	2018	2017
<b>Revenues and other Support</b>										
Sales, events, tuition & admissions			4,826	2,831			119		7,777	8,201
Contributions and membership	267			164			1,205	270	1,906	2,843
Investment gains( losses)				(1,293)					(1,293)	2,298
Miscellaneous income					6				6	0
<b>Total Revenues and other support</b>	<b>267</b>		<b>4,826</b>	<b>2,995</b>	<b>(1,293)</b>	<b>6</b>	<b>1,324</b>	<b>270</b>	<b>8,395</b>	<b>13,343</b>
<b>Operating Expenses</b>										
Advertising and Marketing		249	26	74			15	0	364	358
Bad debts				(45)					(45)	
Bank, Broker, and credit card charges	1		130	22		4	4	1	163	158
Depreciation and amortization			287	991		37			1,314	1,949
Direct costs and costs of sales			1,860	1,223			56		3,084	3,130
Event expense		0							56	71
Insurance			15	166		57			238	255
Intercompany (revenue) expense			652		(652)					
Interest expense			44	4					48	50
MIS support	2	1	51	101		63	4	10	233	126
Office supplies	1	3	22	17		20	37	58	159	239
Other expenses		8	6	58		29	31		132	177
Professional Services			6	8		34			48	34
Repairs and maintenance	3		129	349		14	1		496	489
Restoration and museum projects	342								342	147
Salaries and benefits	667	20	1,427	1,317		271	366	(2)	4,065	3,994
Travel	1	0	10	26		2	11		50	62
Utilities and telephone		2	131	164		42	1		339	284
Total operating expenses	1,017	283	4,796	4,475	0	(79)	526	67	11,086	11,523
<b>CHANGE IN NET ASSETS</b>	<b>(750)</b>	<b>(283)</b>	<b>30</b>	<b>(1,480)</b>	<b>(1,293)</b>	<b>85</b>	<b>798</b>	<b>203</b>	<b>(2,691)</b>	<b>1,820</b>