

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015**

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
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**DECEMBER 31, 2015**

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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, 2015, and the related consolidated statements of activities 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, 2015, 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.

**Report on Summarized Comparative Information**

We have previously audited the Foundation's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of divisional income and expense on pages 17 and 18 and the consolidating schedules on pages 19 and 20 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  
April 20, 2016

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**  
(In thousands of dollars)

	<b>ASSETS</b>				<b>2014</b>
	<b>2015</b>			<b>Total</b>	
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
<b>CURRENT ASSETS</b>					<b>Total</b>
Cash and cash equivalents	\$ 1,918	\$ 166	\$ 25	\$ 2,109	\$ 3,170
Unconditional promises to give, net	424	-	-	424	732
Inventories	569	-	-	569	511
Prepaid expenses	151	-	-	151	180
Other current assets	159	-	-	159	51
Total current assets	<u>3,221</u>	<u>166</u>	<u>25</u>	<u>3,412</u>	<u>4,643</u>
<b>NON-CURRENT ASSETS</b>					
Investments	2,513	2,380	6,484	11,377	10,728
Beneficial interest in perpetual trust	-	-	1,177	1,177	1,324
Unconditional promises to give, net	842	-	-	842	1,120
Property and equipment, net	5,890	-	-	5,890	5,379
Other assets	137	-	-	137	48
Total non-current assets	<u>9,382</u>	<u>2,380</u>	<u>7,661</u>	<u>19,423</u>	<u>18,600</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,603</u>	<u>\$ 2,546</u>	<u>\$ 7,686</u>	<u>\$ 22,835</u>	<u>\$ 23,243</u>
	<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 340	\$ -	\$ -	\$ 340	\$ 179
Accrued wages and compensated absences	381	-	-	381	297
Note payable, current	81	-	-	81	-
Deferred revenue, current	249	-	-	249	145
Total current liabilities	<u>1,051</u>	<u>-</u>	<u>-</u>	<u>1,051</u>	<u>622</u>
<b>LONG-TERM LIABILITIES</b>					
Note payable, long-term	588	-	-	588	-
Deferred revenue, long-term	89	-	-	89	-
Total long-term liabilities	<u>677</u>	<u>-</u>	<u>-</u>	<u>677</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>1,728</u>	<u>-</u>	<u>-</u>	<u>1,728</u>	<u>622</u>
<b>NET ASSETS</b>	<u>10,875</u>	<u>2,546</u>	<u>7,686</u>	<u>21,107</u>	<u>22,621</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>					
<b>ASSETS</b>	<u>\$ 12,603</u>	<u>\$ 2,546</u>	<u>\$ 7,686</u>	<u>\$ 22,835</u>	<u>\$ 23,243</u>

See notes to the financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDING DECEMBER 31, 2014**  
(In thousands of dollars)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>REVENUES AND OTHER SUPPORT</b>					
Sales, special events, tuition and admissions	\$ 7,092	\$ -	\$ -	\$ 7,092	\$ 6,337
Contributions and memberships	1,099	624	127	1,850	3,985
Investment income	229	1	-	230	239
Investment gains (losses)	(399)	(154)	21	(532)	10
Increase (decrease) in interest in perpetual trust	-	-	(53)	(53)	3
Miscellaneous income	11	18	-	29	129
Net assets released from restrictions	2,005	(1,890)	(115)	-	-
<b>Total Revenues and Other Support</b>	10,037	(1,401)	(20)	8,616	10,703
<b>EXPENSES</b>					
Operating expenses:					
Program services	9,071	-	-	9,071	8,830
Management and general	1,059	-	-	1,059	1,059
	10,130	-	-	10,130	9,889
Other expenses:					
Loss on disposal of property	-	-	-	-	247
<b>Total Expenses</b>	10,130	-	-	10,130	10,137
<b>CHANGE IN NET ASSETS</b>	(93)	(1,401)	(20)	(1,514)	566
<b>NET ASSETS, BEGINNING OF YEAR</b>	10,968	3,947	7,706	22,621	22,054
<b>NET ASSETS, END OF YEAR</b>	\$ 10,875	\$ 2,546	\$ 7,686	\$ 21,107	\$ 22,621

See notes to the financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(In thousands of dollars)

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (1,514)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	1,375
Net realized and unrealized (gain)/loss on investments	438
(Increase) decrease in assets:	
Unconditional promises to give	586
Inventories	(58)
Prepaid expenses	28
Other assets	(197)
Beneficial interest in perpetual trust	147
Increase (decrease) in liabilities:	
Accounts payable	161
Accrued wages and compensated absences	84
Deferred revenue	193
Net cash provided by operating activities	<u>1,243</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of capital assets	(1,886)
Purchase of investments	(1,844)
Proceeds from sale of investments	757
Net cash used in investing activities	<u>(2,973)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from long-term borrowing	<u>669</u>
<b>NET DECREASE IN CASH</b>	(1,061)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,170</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 2,109</u></u>

See notes to the financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

**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.



**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION – CONTINUED**

**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.

**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:

Unrestricted net assets are not subject to donor-imposed stipulations. Board designated or appropriated amounts are legally unrestricted and are reported as part of the unrestricted class.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less 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 market.

**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 and are accounted for in the fund that owned the assets.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION – CONTINUED**

**Investments – Continued**

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, 2015.

**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 unrestricted net assets in the fiscal year in which the restrictions expire.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
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**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION – CONTINUED**

**Revenue Recognition – Continued**

All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

**Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program and supporting services.

Advertising costs are expensed as incurred. Advertising expense related to Museum support and related programs and NFA for the year ended December 31, 2015 was approximately \$242 thousand and \$67 thousand, respectively. Advertising expense is reported in the consolidated schedule of divisional income and expense as advertising and marketing expense as of December 31, 2015.

**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.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION – CONTINUED**

**Summarized Financial Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

**Reclassifications**

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 financial statement presentation.

**Events Occurring After Reporting Date**

The Company has evaluated events and transactions that occurred between December 31, 2015 and April 20, 2016, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**2. CONCENTRATIONS OF RISK**

The Foundation maintains deposits in financial institutions which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) and/or the Securities Investor Protection Corporation (SIPC). As of December 31, 2015, the Foundation's cash and cash equivalents are concentrated in a few financial institutions and subject to risk of loss in the event of financial institution failure as it exceeds insurance coverage provided. The Foundation's exposure in its investments is limited due to the diversity of its portfolio.

Concentrations of credit risk with respect to donor promises to give exist as two donors comprise over ninety five percent of the outstanding balance as of December 31, 2015.

**3. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at year-end consisted of the following:

Amounts due (in thousands):	
Within one year	\$ 443
In one to five years	1,017
After five years	<u>17</u>
	1,477
Less: Present value discount and allowance for uncollectable accounts	<u>(211)</u>
Total promises to give	<u><u>\$ 1,266</u></u>

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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#### **4. INVESTMENTS**

Investments at December 31, 2015, 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 (level 1)	\$ 135
Equities and mutual funds (level 1)	8,925
Hedge funds (level 2)	1,096
Annuities (level 2)	<u>1,221</u>
	<u>\$ 11,377</u>

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, 2015 investment gains and (losses) on the consolidated statement of activities is net of custodial and investment advisory fees of approximately \$94 thousand.

#### **5. BENEFICIAL INTEREST TRUST**

The Foundation is the beneficiary of a perpetual trust which is administered by the financial institution. The Foundation receives income distributions from the perpetual trust quarterly and has no access to the corpus. Perpetual trust assets totaling approximately \$1.177 million are recorded in the statement of financial position as permanently restricted assets.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**5. BENEFICIAL INTEREST TRUSTS – CONTINUED**

At year-end the perpetual trust included approximately \$55 thousand in cash, approximately \$922 thousand in equity securities, and approximately \$200 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 \$93 thousand.

**6. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2015, consisted of the following (in thousands of dollars):

*The Naval Aviation Museum Foundation and Foundation Museum Support*

	<u>Useful lives</u>	
Office, simulators and theater equipment and furnishings	3 -15 years	\$ 1,518
Construction-in-progress		<u>676</u>
		2,194
Less: Accumulated depreciation		<u>(685)</u>
		<u>\$ 1,509</u>

*National Flight Academy*

	<u>Useful lives</u>	
Office equipment and furnishings	3 -15 years	\$ 4,510
Flight academy curriculum	7 -15 years	918
Software	3 -15 years	1,855
Website	3 years	47
Leasehold improvements	15 years	<u>1,485</u>
		8,815
Less: Accumulated depreciation		<u>(4,434)</u>
		<u>\$ 4,381</u>

During 2015, NFA received donated software licenses for program use valued at approximately \$632 thousand. The value of the licenses currently in use of approximately \$402 thousand is recorded in contribution revenue on the statement of activities. The remainder of the licenses not yet placed in service of approximately \$166 thousand is recorded in deferred revenue on the statement of financial position and will be recognized in the statement of activities at the time the licenses are placed into service. Additionally during 2015, NFA received \$91 thousand, recorded as contribution revenue, in donated software for use in its programs.

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**7. LINE OF CREDIT**

In 2015, NFA renewed its \$950 thousand line of credit with a bank with similar terms as the previous agreement with a maturity on August 23, 2016. The rate of interest for the line of credit is prime plus 1.5% with a floor of 4.75%. The line is secured by an agreement covering NFA's equipment and unconditional promises to give. At December 31, 2015, there was no outstanding balance on the line of credit.

**8. FOUNDATION PROMISSORY NOTE**

In October 2015, the Foundation entered into a promissory note (loan) with a bank in the amount of \$1.5 million with an interest rate of 3.75%. The proceeds from the loan are being utilized to renovate the Theater which was operational in March 2016, with an expected grand opening in May 2016. The terms of the loan include six consecutive interest only installments beginning November 6, 2015 with the last interest only installment due on April 6, 2016, at which time the loan will convert to a seven year repayment term with final payment due on April 6, 2023. The loan 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 loan is secured by the Theater equipment acquired as part of the renovation. As of December 31, 2015, the Foundation is in compliance with its covenants.

**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 2015 of approximately \$57 thousand.

**10. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at December 31, 2015, are available for the following purposes (in thousands of dollars):

	<u>Purpose</u>	
Lupo Trust	Symposium	\$ 27
Wings of Gold	To perpetuate the mission of the Museum	829
Benefactor's Circle	Membership	519
NFA Scholarships	NFA Scholarships	50
NFA Capital Campaign	Capital Improvements to NFA	93
Grants	Various	19
Aircraft and exhibit projects	Restoration of aircraft and exhibits	<u>1,009</u>
		<u>\$ 2,546</u>

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
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**10. RESTRICTIONS ON NET ASSETS – CONTINUED**

Permanently restricted net assets consist of assets to be held indefinitely. The income from the assets can be used as follows (in thousands of dollars):

	<u>Purpose</u>	<u>Amount</u>
McCarthy Trust	Unrestricted	\$ 1,177
Lupo Trust	Symposium	113
Wings of Gold	To perpetuate the mission of the Museum	6,371
Trader Jon's	NFA Scholarships	<u>25</u>
		<u>\$ 7,686</u>

**11. COMMITMENTS**

The Foundation leases equipment in the IMAX Theater from IMAX Corporation under a non-cancelable operating lease ending in June 2016. The lease sets forth a minimum monthly lease cost, however, the Foundation is required to pay 3% to 7% of IMAX Theater admission revenue if it exceeds the minimum lease cost requirement. The operating lease also includes required annual maintenance. The Foundation incurred approximately \$196 thousand in cost related to this lease for the period ending December 31, 2015. Effective December 31, 2015 the Foundation cancelled its equipment lease with IMAX. Under the terms of the cancellation agreement, the Foundation paid IMAX approximately \$50 thousand in January 2016 representing the remaining amount due under its operating lease. The cancellation payment is reported in the consolidated statement of activities as program service expense as of December 31, 2015.

As of December 31, 2015, the Foundation has entered into various commitments with vendors for the \$1.5 million renovation of the Theater with an expected completion in April 2016.

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 2015 under the profit-sharing arrangement was approximately \$113 thousand.

The Foundation has an existing lease agreement with NAVFAC LANT for the use of the NFA building. The lease was executed upon the donation and acceptance of the building by the Foundation to the Navy. The lease agreement is effective until December 31, 2061. Under the terms of the lease agreement the Foundation is responsible for the NFA building interior and exterior maintenance costs.

**12. 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.



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### **13. RELATED PARTY TRANSACTIONS**

NFA received contributions from the Foundation's Board of Directors and related committees and from companies whose management serve on the Foundation's Board of Director's and related committees of approximately \$1.1 million during 2015. As of December 31, 2015, NFA has outstanding pledges receivable of approximately \$1 million from the Foundation's Board of Directors and related committees and from companies whose management serve on the Foundation's Board of Directors and related committees.

The Foundation received contributions of approximately \$40 thousand from its Board of Directors and related committees during 2015.

### **14. ENDOWMENT**

The Foundation's endowment consists of individual funds established for scholarships, support of the Museum, Foundation and the Foundation's annual Symposium. Endowment fund balances are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications and state law.

#### **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 permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment (if any) and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

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

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**14. ENDOWMENT – CONTINUED**

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, 2015:

		<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$	7,706
Donations and other support		127
Net unrealized/realized gains (losses)		(53)
Investment income		21
Released from restrictions		(115)
Endowment net assets, end of year	<u>\$</u>	<u>7,686</u>

The endowment net assets are all donor designated funds.

**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) The current spending policy for scholarships is to distribute amounts equal to donor specifications.
- (3) Foundation revenue generating functions should substantially fund Foundation operations.
- (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 this funding will not, in any year, exceed 5% of the market value of the fund averaged over the preceding three years.

## **SUPPLEMENTARY INFORMATION**

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF DIVISIONAL INCOME & EXPENSES (UNAUDITED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2015,**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014**  
(In thousands of dollars)

	<b>Program</b>					
	Administration	Museum Support	Flight Academy	Flightdeck Store	Concessions	Investment Activity
<b>REVENUES AND OTHER SUPPORT</b>						
Sales, special events, tuition, and admissions	\$ -	\$ 30	\$ 1,687	\$ 3,007	\$ 273	\$ -
Contributions and memberships	168	68	682	-	-	-
Investment income	-	-	-	-	-	230
Investment gains (losses)	-	-	-	-	-	(532)
Increase (decrease) in interest in perpetual trust	-	-	-	-	-	(53)
Miscellaneous income	29	-	-	-	-	-
<b>Total Revenues and Other Support</b>	<b>197</b>	<b>98</b>	<b>2,369</b>	<b>3,007</b>	<b>273</b>	<b>(355)</b>
<b>EXPENSES</b>						
Operating expenses:						
Advertising and marketing	-	204	69	22	-	-
Bad debts	-	-	-	-	-	-
Bank, broker, and credit card charges	19	-	18	55	1	-
Depreciation and amortization	163	-	1,212	-	-	-
Direct costs and costs of sales	-	19	832	1,492	100	-
Event expense	-	-	-	-	-	-
Insurance	66	2	149	-	-	-
Intercompany (revenue) expense	(316)	-	316	-	-	-
MIS support	70	7	50	27	-	-
Office supplies	24	10	21	46	-	-
Other expenses	41	7	93	7	-	-
Professional services	43	-	-	-	-	-
Repairs and maintenance	5	5	145	12	-	-
Restoration and museum projects	-	428	-	-	-	-
Salaries and benefits	909	667	441	314	31	-
Travel	8	2	24	2	-	-
Utilities and telephone	24	1	165	18	-	-
	<u>1,056</u>	<u>1,352</u>	<u>3,535</u>	<u>1,995</u>	<u>132</u>	<u>-</u>
Other expenses:						
Loss on disposal of property	-	-	-	-	-	-
<b>Total Expenses</b>	<b>1,056</b>	<b>1,352</b>	<b>3,535</b>	<b>1,995</b>	<b>132</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (859)</b>	<b>\$ (1,254)</b>	<b>\$ (1,166)</b>	<b>\$ 1,012</b>	<b>\$ 141</b>	<b>\$ (355)</b>

See independent auditors' report.

**NAVAL AVIATION MUESUM FOUNDATION, INC., AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF DIVISIONAL INCOME & EXPENSES (UNAUDITED) - CONT'D**  
**FOR THE YEAR ENDED DECEMBER 31, 2015,**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014**  
(In thousands of dollars)

	Program				2015 Total	2014 Total
	Development	Membership	Theaters	Simulators		
<b>REVENUES AND OTHER SUPPORT</b>						
Sales, special events, tuition, and admissions	\$ 251	\$ -	\$ 1,098	\$ 746	\$ 7,092	\$ 6,337
Contributions and memberships	660	272	-	-	1,850	3,985
Investment income	-	-	-	-	230	239
Investment gains (losses)	-	-	-	-	(532)	10
Increase (decrease) in interest in perpetual trust	-	-	-	-	(53)	3
Miscellaneous income	-	-	-	-	29	129
<b>Total Revenues and Other Support</b>	<b>911</b>	<b>272</b>	<b>1,098</b>	<b>746</b>	<b>8,616</b>	<b>10,703</b>
<b>EXPENSES</b>						
Operating expenses:						
Advertising and marketing	17	3	16	-	331	368
Bad debts	26	-	-	-	26	36
Bank, broker, and credit card charges	-	-	25	-	118	105
Depreciation and amortization	-	-	-	-	1,375	1,267
Direct costs and costs of sales	3	-	266	120	2,832	2,628
Event expense	114	-	-	-	114	115
Insurance	-	-	1	19	237	253
Intercompany (revenue) expense	-	-	-	-	-	-
MIS support	8	-	8	-	170	172
Office supplies	30	74	20	-	225	201
Other expenses	15	-	3	5	171	187
Professional services	-	-	-	-	43	47
Repairs and maintenance	-	-	122	19	308	259
Restoration and museum projects	-	-	-	-	428	768
Salaries and benefits	370	65	375	200	3,372	3,209
Travel	19	-	2	-	57	47
Utilities and telephone	3	-	99	13	323	231
	605	142	937	376	10,130	9,889
Other expenses:						
Loss on disposal of property	-	-	-	-	-	247
<b>Total Expenses</b>	<b>605</b>	<b>142</b>	<b>937</b>	<b>376</b>	<b>10,130</b>	<b>10,137</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 306</b>	<b>\$ 130</b>	<b>\$ 161</b>	<b>\$ 370</b>	<b>\$ (1,514)</b>	<b>\$ 566</b>

See independent auditors' report.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(In thousands of dollars)

<b>ASSETS</b>	<u>NAMF</u>	<u>Support</u>	<u>NFA</u>	<u>Consolidating</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 808	\$ 697	\$ 604	\$ -	\$ 2,109
Unconditional promises to give, net	5	-	419	-	424
Inventories	-	569	-	-	569
Prepaid expenses	51	6	94	-	151
Due from other subsidiaries	-	2,563	(2)	(2,561)	-
Other current assets	49	-	110	-	159
Total current assets	<u>913</u>	<u>3,835</u>	<u>1,225</u>	<u>(2,561)</u>	<u>3,412</u>
<b>NON-CURRENT ASSETS</b>					
Investments	10,156	1,221	-	-	11,377
Beneficial interest in perpetual trust	1,177	-	-	-	1,177
Unconditional promises to give, net	-	-	842	-	842
Property and equipment, net	69	1,440	4,381	-	5,890
Other assets	-	48	89	-	137
Total non-current assets	<u>11,402</u>	<u>2,709</u>	<u>5,312</u>	<u>-</u>	<u>19,423</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,315</u>	<u>\$ 6,544</u>	<u>\$ 6,537</u>	<u>\$ (2,561)</u>	<u>\$ 22,835</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 29	\$ 227	\$ 84	\$ -	\$ 340
Accrued wages & compensated absences	150	167	64	-	381
Due to other subsidiaries	2,561	-	-	(2,561)	-
Note payable, current	-	81	-	-	81
Deferred revenue, current	84	-	165	-	249
Total current liabilities	<u>2,824</u>	<u>475</u>	<u>313</u>	<u>(2,561)</u>	<u>1,051</u>
<b>LONG-TERM LIABILITIES</b>					
Note payable, long-term	-	588	-	-	588
Deferred revenue, long-term	-	-	89	-	89
Total long-term liabilities	<u>-</u>	<u>588</u>	<u>89</u>	<u>-</u>	<u>677</u>
<b>TOTAL LIABILITIES</b>	<u>2,824</u>	<u>1,063</u>	<u>402</u>	<u>(2,561)</u>	<u>1,728</u>
<b>NET ASSETS</b>	<u>9,491</u>	<u>5,481</u>	<u>6,135</u>	<u>-</u>	<u>21,107</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 12,315</u>	<u>\$ 6,544</u>	<u>\$ 6,537</u>	<u>\$ (2,561)</u>	<u>\$ 22,835</u>

See independent auditors' report.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(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	\$ 280	\$ 5,125	\$ 1,687	\$ 7,092
Contributions and memberships	932	236	682	1,850
Investment income	230	-	-	230
Investment gains (losses)	(486)	(46)	-	(532)
Increase (decrease) in interest in perpetual trust	(53)	-	-	(53)
Miscellaneous income	7	22	-	29
<b>Total revenues and other support</b>	<u>910</u>	<u>5,337</u>	<u>2,369</u>	<u>8,616</u>
<b>EXPENSES</b>				
Operating expenses:				
Program services	1,184	4,354	3,533	9,071
Management and general	997	62	-	1,059
<b>Total expenses</b>	<u>2,181</u>	<u>4,416</u>	<u>3,533</u>	<u>10,130</u>
<b>CHANGE IN NET ASSETS</b>	(1,271)	921	(1,164)	(1,514)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,762</u>	<u>4,560</u>	<u>7,299</u>	<u>22,621</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 9,491</u>	<u>\$ 5,481</u>	<u>\$ 6,135</u>	<u>\$ 21,107</u>

See independent auditors' report.