

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016



NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
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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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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
May 5, 2017

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016, WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015
(In thousands of dollars)

	ASSETS				2015	
	2016			Total		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted			
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,113	\$ 269	\$ 25	\$ 1,407	\$ 2,109	
Unconditional promises to give, net	294	-	-	294	424	
Inventories	665	-	-	665	569	
Prepaid expenses	138	-	-	138	151	
Accounts receivable	614	31	-	645	111	
Total current assets	2,824	300	25	3,149	3,364	
NON-CURRENT ASSETS						
Investments	3,984	1,574	6,569	12,127	11,377	
Beneficial interest in perpetual trust	-	-	1,147	1,147	1,177	
Unconditional promises to give, net	717	-	-	717	842	
Property and equipment, net	6,733	-	-	6,733	5,890	
Other assets	96	-	-	96	185	
Total non-current assets	11,530	1,574	7,716	20,820	19,471	
TOTAL ASSETS	\$ 14,354	\$ 1,874	\$ 7,741	\$ 23,969	\$ 22,835	
	LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES						
Accounts payable	\$ 584	\$ -	\$ -	\$ 584	\$ 340	
Accrued wages and compensated absences	222	-	-	222	381	
Note payable	196	-	-	196	81	
Deferred revenue	235	-	-	235	249	
Total current liabilities	1,237	-	-	1,237	1,051	
LONG-TERM LIABILITIES						
Line of credit	90	-	-	90	-	
Note payable	1,178	-	-	1,178	588	
Deferred revenue	-	-	-	-	89	
Total long-term liabilities	1,268	-	-	1,268	677	
TOTAL LIABILITIES	2,505	-	-	2,505	1,728	
NET ASSETS	11,849	1,874	7,741	21,464	21,107	
TOTAL LIABILITIES AND NET ASSETS	\$ 14,354	\$ 1,874	\$ 7,741	\$ 23,969	\$ 22,835	

See consolidated notes to the financial statements.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands of dollars)

	2016			2015	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT					
Sales, special events, tuition and admissions	\$ 7,657	\$ 217	\$ -	\$ 7,874	\$ 7,092
Contributions and memberships	747	1,236	85	2,068	1,850
Investment income	213	1	-	214	230
Investment gains (losses)	72	702	19	793	(532)
Increase (decrease) in interest in perpetual trust	-	-	42	42	(53)
Miscellaneous income	129	-	-	129	29
Net assets released from restrictions	<u>2,919</u>	<u>(2,828)</u>	<u>(91)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	11,737	(672)	55	11,120	8,616
OPERATING EXPENSES					
Program services	9,631	-	-	9,631	9,071
Management and general	<u>1,132</u>	<u>-</u>	<u>-</u>	<u>1,132</u>	<u>1,059</u>
Total operating expenses	10,763	-	-	10,763	10,130
CHANGE IN NET ASSETS	974	(672)	55	357	(1,514)
NET ASSETS, BEGINNING OF YEAR	<u>10,875</u>	<u>2,546</u>	<u>7,686</u>	<u>21,107</u>	<u>22,621</u>
NET ASSETS, END OF YEAR	<u>\$ 11,849</u>	<u>\$ 1,874</u>	<u>\$ 7,741</u>	<u>\$ 21,464</u>	<u>\$ 21,107</u>

See consolidated notes to the financial statements.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of dollars)

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 357
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	1,687
Loss on disposal of property	202
Net realized and unrealized (gain) loss on investments	(683)
(Increase) decrease in assets:	
Unconditional promises to give	255
Inventories	(96)
Prepaid expenses	13
Other assets	(445)
Beneficial interest in perpetual trust	30
Increase (decrease) in liabilities:	
Accounts payable	244
Accrued wages and compensated absences	(159)
Deferred revenue	(103)
Net cash provided by operating activities	1,302
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	(2,732)
Purchase of investments	(802)
Proceeds from sale of investments	735
Net cash used in investing activities	(2,799)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	540
Principal payments on line of credit	(450)
Proceeds from note payable	831
Principal payments on note payable	(126)
Net cash provided by financing activities	795
NET DECREASE IN CASH AND CASH EQUIVALENTS	(702)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,109
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,407
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	\$ 43

See consolidated notes to the financial statements.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 oversee 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, 2016

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION – 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:

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

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016.

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
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016 was approximately \$334 thousand and \$99 thousand, respectively. Advertising expense is reported in the consolidated schedule of divisional income and expense as advertising and marketing expense as of December 31, 2016.

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, 2016

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, 2015, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 financial statement presentation.

Events Occurring After Reporting Date

The Company has evaluated events and transactions that occurred between December 31, 2016 and May 5, 2017, 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, 2016, 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-seven percent of the outstanding balance as of December 31, 2016.

3. UNCONDITIONAL PROMISES TO GIVE

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

Amounts due (in thousands):	
Within one year	\$ 310
In one to five years	811
After five years	<u>17</u>
	1,138
Less: Present value discount and allowance for uncollectable accounts	<u>(127)</u>
Total promises to give	<u><u>\$ 1,011</u></u>

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. INVESTMENTS

Investments at December 31, 2016, consisted of the following (in thousands of dollars):

The Naval Aviation Museum Foundation and Foundation Museum Support

	Fair Market Value
Certificate of deposit (level 1)	\$ 131
Equities and mutual funds (level 1)	9,626
Hedge funds (level 2)	1,117
Annuities (level 2)	1,253
	<u>\$ 12,127</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, 2016 investment gains and (losses) on the consolidated statement of activities is net of custodial and investment advisory fees of approximately \$92 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 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
DECEMBER 31, 2016

5. BENEFICIAL INTEREST TRUST – CONTINUED

At year-end the perpetual trust included approximately \$139 thousand in cash and cash equivalents, approximately \$764 thousand in equity securities, and approximately \$244 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 \$77 thousand.

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016, consisted of the following (in thousands of dollars):

The Naval Aviation Museum Foundation and Foundation Museum Support

	<u>Useful lives</u>	
Office equipment, simulators and theater equipment and furnishings	3 -15 years	\$ 3,065
Less: Accumulated depreciation		<u>(862)</u>
		<u>\$ 2,203</u>

National Flight Academy

	<u>Useful lives</u>	
Office equipment and furnishings	3 -15 years	\$ 4,479
Flight academy curriculum	7 -15 years	948
Software	3 -15 years	2,059
Website	3 years	47
Leasehold improvements	15 years	1,583
Construction-in-progress		<u>948</u>
		10,064
Less: Accumulated depreciation		<u>(5,534)</u>
		<u>\$ 4,530</u>

Construction-in-progress is comprised of additional flight simulators, furnishings of the fourth deck, additional sick bays and a full kitchen not placed in service as of December 31, 2016.

7. LINE OF CREDIT

NFA has a \$500 thousand line of credit with a bank maturing on August 4, 2019. The rate of interest for the line of credit is prime plus 1.45% with a floor of 4.95%. The line is secured by an agreement covering NFA's equipment and unconditional promises to give. At December 31, 2016, \$90 thousand was outstanding on the line of credit.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

8. FOUNDATION NOTE PAYABLE

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 were utilized to renovate the Theater which was operational in March 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 converted 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. The balance outstanding at December 31, 2016 was \$1.374 million. As of December 31, 2016, 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 2016 of approximately \$60 thousand.

10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2016, are available for the following purposes (in thousands of dollars):

	<u>Purpose</u>	<u>Amount</u>
Lupo Trust	Symposium	\$ 24
Wings of Gold	To perpetuate the mission of the Museum	615
Benefactor's Circle	Membership	416
NFA Scholarships	NFA Scholarships	27
NFA Sponsorships	NFA Sponsorships	217
NFA Capital Campaign	Capital Improvements to NFA	52
Aircraft and exhibit projects	Restoration of aircraft and exhibits	523
		<u>\$ 1,874</u>

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	\$ 1,147
Lupo Trust	Symposium	113
Wings of Gold	To perpetuate the mission of the Museum	6,456
Trader Jon's	NFA Scholarships	<u>25</u>
		<u>\$ 7,741</u>

11. COMMITMENTS

As of December 31, 2016, the NFA had outstanding contract commitments of approximately \$880 thousand related to acquisition of additional flight simulators, furnishing of the fourth deck, and the construction of additional sick bays and a full kitchen. Construction is expected to be completed in May 2017.

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 2016 under the profit-sharing arrangement was approximately \$119 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.

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 Directors and related committees of approximately \$231 thousand during 2016. As of December 31, 2016, NFA has outstanding pledges receivable of approximately \$800 thousand 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.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

13. RELATED PARTY TRANSACTIONS – CONTINUED

The Foundation received contributions of approximately \$146 thousand from its Board of Directors and related committees during 2016.

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.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016:

	Permanently Restricted
Endowment net assets, beginning of year	\$ 7,686
Donations and other support	85
Net unrealized/realized gains (losses)	42
Investment income	19
Released from restrictions	(91)
Endowment net assets, end of year	\$ 7,741

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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015
(in the thousands of dollars)

	Program						
	<u>Administration</u>	<u>Museum Support</u>	<u>Public Awareness</u>	<u>Flight Academy</u>	<u>Flightdeck Store</u>	<u>Concessions</u>	<u>Investment Activity</u>
REVENUES AND OTHER SUPPORT							
Sales, special events, tuition, and admissions	\$ -	\$ -	\$ -	\$ 2,973	\$ 2,882	\$ 286	\$ -
Contributions and memberships	-	261	-	860	-	-	-
Investment income	-	-	-	-	-	-	214
Investment gains (losses)	-	-	-	-	-	-	793
Increase (decrease) in interest in perpetual trust	-	-	-	-	-	-	42
Miscellaneous income	129	-	-	-	-	-	-
Total revenues and other support	129	261	-	3,833	2,882	286	1,049
OPERATING EXPENSES							
Advertising and marketing	-	-	269	99	24	-	-
Bad debts	-	-	-	8	-	-	-
Bank, broker, and credit card charges	19	-	-	14	54	-	-
Depreciation and amortization	307	-	-	1,380	-	-	-
Direct costs and costs of sales	-	-	-	1,021	1,404	94	-
Event expense	-	-	-	-	-	-	-
Insurance	67	-	-	152	-	-	-
Intercompany (revenue) expense	(390)	-	-	390	-	-	-
Interest expense	-	-	-	2	-	-	-
Loss on disposal of property	-	-	-	202	-	-	-
MIS support	68	-	1	11	19	2	-
Office supplies	26	1	11	6	45	-	-
Other expenses	28	-	8	146	2	-	-
Professional services	48	-	-	-	-	-	-
Repairs and maintenance	2	8	-	141	6	4	-
Restoration and museum projects	-	566	-	-	-	-	-
Salaries and benefits	904	669	107	452	315	81	-
Travel	9	-	3	15	-	-	-
Utilities and telephone	44	-	1	97	10	-	-
Total operating expenses	1,132	1,244	400	4,135	1,879	181	-
CHANGE IN NET ASSETS	<u>\$ (1,003)</u>	<u>\$ (983)</u>	<u>\$ (400)</u>	<u>\$ (302)</u>	<u>\$ 1,003</u>	<u>\$ 105</u>	<u>\$ 1,049</u>

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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015
(in the thousands of dollars)

	Program				2016 Total	2015 Total
	Development	Membership	Theaters	Simulators		
REVENUES AND OTHER SUPPORT						
Sales, special events, tuition, and admissions	\$ 111	\$ -	\$ 860	\$ 762	\$ 7,874	\$ 7,092
Contributions and memberships	683	264	-	-	2,068	1,850
Investment income	-	-	-	-	214	230
Investment gains (losses)	-	-	-	-	793	(532)
Increase (decrease) in interest in perpetual trust	-	-	-	-	42	(53)
Miscellaneous income	-	-	-	-	129	29
Total revenues and other support	794	264	860	762	11,120	8,616
OPERATING EXPENSES						
Advertising and marketing	29	3	8	-	432	331
Bad debts	-	-	-	-	8	26
Bank, broker, and credit card charges	-	-	32	-	119	118
Depreciation and amortization	-	-	-	-	1,687	1,375
Direct costs and costs of sales	4	-	44	125	2,692	2,832
Event expense	58	-	-	-	58	114
Insurance	-	-	-	12	231	237
Intercompany (revenue) expense	-	-	-	-	-	-
Interest expense	-	-	41	-	43	-
Loss on disposal of property	-	-	-	-	202	-
MIS support	6	-	5	-	112	170
Office supplies	19	74	3	-	185	225
Other expenses	87	-	2	10	283	171
Professional services	-	-	-	-	48	43
Repairs and maintenance	1	1	61	15	239	308
Restoration and museum projects	-	-	-	-	566	428
Salaries and benefits	410	67	324	231	3,560	3,372
Travel	19	-	8	-	54	57
Utilities and telephone	3	-	74	16	245	323
Total operating expenses	636	145	602	409	10,763	10,130
CHANGE IN NET ASSETS	\$ 158	\$ 119	\$ 258	\$ 353	\$ 357	\$ (1,514)

See independent auditors' report.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of dollars)

	<u>NAMF</u>	<u>FMSC</u>	<u>NFA</u>	<u>Consolidated</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 895	\$ 243	\$ 269	\$ 1,407
Unconditional promises to give, net	-	-	294	294
Inventories	-	665	-	665
Prepaid expenses	23	13	102	138
Accounts receivable	-	67	578	645
Total current assets	<u>918</u>	<u>988</u>	<u>1,243</u>	<u>3,149</u>
NON-CURRENT ASSETS				
Investments	10,874	1,253	-	12,127
Beneficial interest in perpetual trust	1,147	-	-	1,147
Unconditional promises to give, net	-	-	717	717
Property and equipment, net	191	2,012	4,530	6,733
Other assets	48	48	-	96
Total non-current assets	<u>12,260</u>	<u>3,313</u>	<u>5,247</u>	<u>20,820</u>
TOTAL ASSETS	<u><u>\$ 13,178</u></u>	<u><u>\$ 4,301</u></u>	<u><u>\$ 6,490</u></u>	<u><u>\$ 23,969</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 58	\$ 138	\$ 388	\$ 584
Accrued wages & compensated absences	95	102	25	222
Note payable	-	196	-	196
Deferred revenue	81	-	154	235
Total current liabilities	<u>234</u>	<u>436</u>	<u>567</u>	<u>1,237</u>
LONG-TERM LIABILITIES				
Line of credit	-	-	90	90
Note payable	-	1,178	-	1,178
Total long-term liabilities	<u>-</u>	<u>1,178</u>	<u>90</u>	<u>1,268</u>
TOTAL LIABILITIES	<u>234</u>	<u>1,614</u>	<u>657</u>	<u>2,505</u>
NET ASSETS	<u>12,944</u>	<u>2,687</u>	<u>5,833</u>	<u>21,464</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 13,178</u></u>	<u><u>\$ 4,301</u></u>	<u><u>\$ 6,490</u></u>	<u><u>\$ 23,969</u></u>

See independent auditors' report.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands of dollars)

	<u>NAMF</u>	<u>FMSC</u>	<u>NFA</u>	<u>Consolidated</u>
REVENUES AND OTHER SUPPORT				
Sales, special events, tuition and admissions	\$ 111	\$ 4,790	\$ 2,973	\$ 7,874
Contributions and memberships	946	262	860	2,068
Investment income	214	-	-	214
Investment gains (losses)	762	31	-	793
Increase (decrease) in interest in perpetual trust	42	-	-	42
Miscellaneous income	-	129	-	129
Total revenues and other support	<u>2,075</u>	<u>5,212</u>	<u>3,833</u>	<u>11,120</u>
OPERATING EXPENSES				
Program services	1,303	4,193	4,135	9,631
Management and general	320	812	-	1,132
Total operating expenses	<u>1,623</u>	<u>5,005</u>	<u>4,135</u>	<u>10,763</u>
OTHER INCOME (EXPENSE)				
Transfers between subsidiaries	3,001	(3,001)	-	-
Total other income (expense)	<u>3,001</u>	<u>(3,001)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	3,453	(2,794)	(302)	357
NET ASSETS, BEGINNING OF YEAR	<u>9,491</u>	<u>5,481</u>	<u>6,135</u>	<u>21,107</u>
NET ASSETS, END OF YEAR	<u>\$ 12,944</u>	<u>\$ 2,687</u>	<u>\$ 5,833</u>	<u>\$ 21,464</u>

See independent auditors' report.