

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

**PENSACOLA, FLORIDA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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

**PENSACOLA, FLORIDA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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## INDEPENDENT AUDITOR'S 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), which comprise the consolidated statement of financial position as of December 31, 2019, 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 risk 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.

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

### **Opinion**

In our opinion, the 2019 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Naval Aviation Museum Foundation, Inc. and Subsidiaries, as of December 31, 2019, 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.

### **Prior Period Financial Statements**

The consolidated financial statements of the Naval Aviation Museum Foundation, Inc. and Subsidiaries as of December 31, 2018, were audited by other auditors whose report dated May 9, 2019, expressed an unmodified opinion on those consolidated financial statements.



Pensacola, Florida  
April 8, 2020

**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018  
(In thousands of dollars)**

**ASSETS**

	2019	2018
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 556	\$ 643
Unconditional promises to give, net	232	375
Inventory	902	678
Prepaid expenses	139	178
Accounts receivable	24	37
Total current assets	1,853	1,911
<b>Noncurrent Assets:</b>		
Investments	16,690	14,107
Beneficial interest in perpetual trust	1,257	1,103
Unconditional promises to give, net	107	171
Property and equipment, net	4,395	5,524
Other assets	48	48
Total other assets	22,497	20,953
<b>Total Assets</b>	<b>\$ 24,350</b>	<b>\$ 22,864</b>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Accounts payable	\$ 301	\$ 246
Accrued wages and compensated absences	311	247
Line of credit	-	350
Current maturities of notes payable	238	238
Deferred revenue	485	304
Total current liabilities	1,335	1,385
<b>Long-Term Liabilities:</b>		
Notes payable, less current maturities	645	886
Total liabilities	1,980	2,271
<b>Net Assets:</b>		
Without donor restrictions	13,175	11,989
With donor restrictions	9,195	8,604
Total net assets	22,370	20,593
<b>Total Liabilities and Net Assets</b>	<b>\$ 24,350</b>	<b>\$ 22,864</b>

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

**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018  
(In thousands of dollars)**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support:</b>						
Sales	\$ 5,117	\$ -	\$ 5,117	\$ 4,890	\$ -	\$ 4,890
Tuition	2,690	-	2,690	2,435	-	2,435
Contributions and memberships	1,608	142	1,750	1,707	187	1,894
Grants	424	-	424	335	-	335
Special events	92	-	92	119	-	119
Investment income	277	34	311	27	215	242
Investment gains (losses)	1,403	1,356	2,759	(589)	(840)	(1,429)
Gain (loss) on beneficial interest in perpetual trust	-	186	186	-	(107)	(107)
Miscellaneous income	11	-	11	7	-	7
Net assets released from restrictions	1,127	(1,127)	-	681	(681)	-
	12,749	591	13,340	9,612	(1,226)	8,386
<b>Expenses:</b>						
Program services -						
Museum support	5,879	-	5,879	5,509	-	5,509
Education support	4,271	-	4,271	4,470	-	4,470
Total program services	10,150	-	10,150	9,979	-	9,979
Support services -						
Administration	688	-	688	574	-	574
Fundraising	725	-	725	524	-	524
Total support services	1,413	-	1,413	1,098	-	1,098
Total expenses	11,563	-	11,563	11,077	-	11,077
<b>Change in Net Assets</b>	1,186	591	1,777	(1,465)	(1,226)	(2,691)
<b>Net Assets, Beginning of Year</b>	11,989	8,604	20,593	13,454	9,830	23,284
<b>Net Assets, End of Year</b>	\$ 13,175	\$ 9,195	\$ 22,370	\$ 11,989	\$ 8,604	\$ 20,593

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

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**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018  
(In thousands of dollars)**

	2019				
	Program Services		Support Services		Total
	Museum Support	Education Support	Administrative	Fundraising	
Advertising and marketing	\$ 353	\$ 55	\$ 3	\$ 83	\$ 494
Bad debt (recovery)	-	-	-	-	-
Bank, broker, and credit card charges	144	34	-	16	194
Depreciation and amortization	295	896	46	-	1,237
Direct costs and costs of sales	1,812	1,588	-	3	3,403
Event expense	-	-	-	59	59
Insurance	70	143	61	-	274
Interest expense	31	4	-	-	35
MIS support	147	54	58	19	278
Office supplies	160	7	39	24	230
Other expenses	114	175	37	43	369
Professional services	12	11	90	-	113
Repairs and maintenance	193	210	-	-	403
Restoration and museum projects	340	-	-	-	340
Salaries and benefits	2,092	933	311	464	3,800
Travel	14	20	6	14	54
Utilities and telephone	102	141	37	-	280
	<u>\$ 5,879</u>	<u>\$ 4,271</u>	<u>\$ 688</u>	<u>\$ 725</u>	<u>\$ 11,563</u>



**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018  
(In thousands of dollars)  
(Continued)**

	2018				
	Program Services		Support Services		Total
	Museum Support	Education Support	Administrative	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
	<u>\$ 5,509</u>	<u>\$ 4,470</u>	<u>\$ 574</u>	<u>\$ 524</u>	<u>\$ 11,077</u>

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

**NAVAL AVIATION MUSEUM FOUNDATION, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018  
(In thousands of dollars)**

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,777	\$ (2,691)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	(2,759)	1,819
Changes in beneficial interest in perpetual trust	(154)	126
Depreciation	1,237	1,314
Changes in operating assets and liabilities -		
Unconditional promises to give, net	207	311
Inventory	(198)	50
Prepaid expenses	13	(60)
Accounts receivable	13	65
Other assets	-	(2)
Accounts payable	55	79
Accrued wages and compensated absences	64	(27)
Deferred revenue	181	62
Net cash provided by operating activities	436	1,046
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(108)	(326)
Purchase of investments	(1,716)	(2,656)
Proceeds from sale of investments	1,892	1,340
Net cash provided by investing activities	68	(1,642)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from line of credit	-	425
Principal payments on line of credit	(350)	(325)
Principal payment on note payable	(241)	(202)
Net cash used in financing activities	(591)	(102)
<b>Net Decrease in Cash and Cash Equivalents</b>	(87)	(698)
<b>Cash and Cash Equivalents at Beginning of Year</b>	643	1,341
<b>Cash and Cash Equivalents at End of Year</b>	\$ 556	\$ 643
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 35	\$ 48

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

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Business Operations:*

The Naval Aviation Museum Foundation, Inc. (the “Foundation”) was incorporated in Florida in 1966 as a nonprofit corporation. The Foundation was organized to foster and perpetuate the National Naval Aviation Museum (the “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 (the “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, FMSC and NFA (collectively, the “Group”). All material intercompany transactions are eliminated upon consolidation.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Basis of Accounting:*

The Group 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:

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

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

*Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, the Group 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 consolidated statements of financial position at their estimated realizable value. The Group 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.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

*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 Group does not imply a time restriction on gifts of long-lived assets received. The Group 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.

*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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Revenue Recognition:*

Sales and Tuition

The Group recognizes revenue for sales and tuition based on the satisfaction of performance obligations. Performance obligations are determined based on the goods or services provided by the Group.

Sales of merchandise, concessions, and refreshments are recognized as goods are delivered to customers.

Revenues from simulator experiences, movie tickets, and other miscellaneous services are recognized on the date the service is provided.

NFA receives tuition revenue from third parties to provide education programs. Tuition collected in advance is deferred until the services are provided. Revenue is recognized as the participants complete the program.

Contributions and Memberships

Contributions are recognized when a donor makes a *promise to give* 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.

Membership revenues collected in advance are recognized over the life of the membership on a straight-line basis.

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.

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.

Grants

Grants are recognized as revenue without donor restrictions when expenses have been incurred for allowable purposes consistent with the terms of the grant agreements. Funds received in advance of allowable grant expenses are reported as deferred revenue in the accompanying statements of financial position.

Special Events

Special events revenues are recognized as events occur.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*In-Kind Donations:*

In-kind donations totaling \$148 thousand and \$102 thousand have been recognized in the accompanying statements of activities for the years ended December 31, 2019 and 2018, respectively. Services donated to NFA include personnel for the sick bay clinic and labor for a virtual reality project. The value for the contributions is based on the fair value of the contributed items or services as of the date received. In-kind donations are reported as contributions and are expensed or capitalized as an asset in the period received.

*Functional Allocation of Expenses:*

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the consolidated statements 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 \$494 thousand and \$364 thousand in 2019 and 2018, respectively.

*Tax Exemption:*

The Internal Revenue Service has determined the Foundation 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. The standard requires enhanced disclosures about revenue, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The Group adopted the new revenue guidance effective January 1, 2019 and did not have an adjustment to retained earnings upon adoption. Aside from expanded disclosures, the adoption of ASU 2014-09 did not have a material impact on the Group’s financial statements.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Subsequent Events:*

Management has evaluated subsequent events through April 8, 2020, the date which the consolidated financial statements were available for issue.

**NOTE 2 - 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.

*Fair Value Measurements:*

The Group has adopted ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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.



**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

*Fair Value Measurements (Continued):*

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. 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 contracts in order to arrive at the fair market value.

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate for fair value at the reporting date.

The following tables present investments carried at fair value (in thousands of dollars) as of December 31, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of deposit	\$	\$ 120	\$	\$ 120
Equities and mutual funds	13,774			13,774
Hedge funds		1,232		1,232
Annuity contracts		1,564		1,564
December 31, 2019	<u>\$ 13,774</u>	<u>\$ 2,916</u>	<u>\$ -</u>	<u>\$ 16,690</u>

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

*Fair Value Measurements (Continued):*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of deposit	\$	\$ 124	\$	\$ 124
Equities and mutual funds	11,514			11,514
Hedge funds		1,177		1,177
Annuity contracts		1,292		1,292
December 31, 2018	<u>\$ 11,514</u>	<u>\$ 2,593</u>	<u>\$ -</u>	<u>\$ 14,107</u>

*Net Return on Investments:*

The net return on investments was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
<b>Year Ended December 31, 2019:</b>		
Dividends and interest	\$ 277	\$ 34
Net realized gain on investments	275	249
Unrealized gain on investments	1,128	1,107
Net return on investments	<u>\$ 1,680</u>	<u>\$ 1,390</u>
<b>Year Ended December 31, 2018:</b>		
Dividends and interest	\$ 27	\$ 215
Net realized gain on investments	133	176
Unrealized loss on investments	(722)	(1,016)
Net return on investments	<u>\$ (562)</u>	<u>\$ (625)</u>

As of December 31, 2019 and 2018, investment income on the consolidated statements of activities are net of custodial and investment advisory fees of approximately \$98 thousand and \$103 thousand, respectively.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 3 - UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give at December 31, 2019 and 2018, consisted of the following (in thousands of dollars):

	<u>2019</u>	<u>2018</u>
Amounts due:		
Within one year	\$ 232	\$ 375
In one to five years	107	200
	<u>339</u>	<u>575</u>
Less: present value discount and allowance for uncollectible accounts	<u>-</u>	<u>(29)</u>
Total promises to give	<u>\$ 339</u>	<u>\$ 546</u>

**NOTE 4 - 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. At December 31, 2019 and 2018, perpetual trust assets totaling approximately \$1.3 million and \$1.1 million, respectively, were recorded in the consolidated statements of financial position as net assets with donor restrictions.

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 during the years ended December 31, 2019 and 2018 totaled approximately \$49 thousand and \$31 thousand, respectively.

At December 31, 2019 and 2018, the beneficial interest in perpetual trust included the following (in thousands of dollars):

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 20	\$ 38
Equity securities	774	720
Fixed income securities	441	345
Real estate funds	<u>22</u>	<u>-</u>
	<u>\$ 1,257</u>	<u>\$ 1,103</u>

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2019 and 2018, consisted of the following (in thousands of dollars):

	Useful Lives	2019	2019
<u>Foundation and FMSC:</u>			
Office, simulators and theater equipment and furnishings	3 - 15 years	\$ 3,363	\$ 3,323
Less: accumulated depreciation		(1,872)	(1,531)
		<u>1,491</u>	<u>1,792</u>
<u>NFA:</u>			
Office equipment and furnishings	3 - 15 years	6,083	6,084
Curriculum	7 - 15 years	1,054	1,054
Software	3 - 15 years	2,252	2,212
Website	3 years	47	47
Leasehold improvements	15 years	2,464	2,464
Construction in progress		29	-
		<u>11,929</u>	<u>11,861</u>
Less: accumulated depreciation		(9,025)	(8,129)
		<u>2,904</u>	<u>3,732</u>
		<u>\$ 4,395</u>	<u>\$ 5,524</u>

**NOTE 6 - LINE OF CREDIT**

NFA has a \$500 thousand line of credit with a bank maturing on August 1, 2020. 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. There was no outstanding balance at December 31, 2019.

**NOTE 7 - 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, 2019 and 2018, was \$766 and \$976 thousand, respectively. As of December 31, 2019, the Foundation was in compliance with its covenants.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 - NOTES PAYABLE (Continued)**

In May 2018, NFA 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 the meals contract with the third party. At December 31, 2019 and 2018, the balance outstanding was \$117 thousand and \$148 thousand, respectively.

The following is a schedule of the future maturities under the notes payable (in thousands of dollars):

2020	\$	238
2021		246
2022		255
2023		102
2024		19
Thereafter		23
		23
	\$	883

**NOTE 8 - 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 2019 and 2018 of approximately \$69 thousand and \$65 thousand, respectively.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
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**NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2019 and 2018, donor restricted net assets consisted of the following (in thousands of dollars):

	<u>2019</u>	<u>2018</u>
Subject to expenditures for specified purposes:		
Scholarships	\$ 28	\$ 30
Restoration of aircraft and exhibits	253	276
Special events	8	11
Museum support	571	155
Membership	215	247
	<u>1,075</u>	<u>719</u>
Subject to the Foundation's spending policy and appropriation:		
Endowment funds restricted in perpetuity	<u>6,863</u>	<u>6,782</u>
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trust	<u>1,257</u>	<u>1,103</u>
Total net assets with donor restrictions	<u>\$ 9,195</u>	<u>\$ 8,604</u>

**NOTE 10 - ENDOWMENT FUND**

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.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 10 - ENDOWMENT FUND (Continued)**

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 years ended December 31, 2019 and 2018:

	2019	2018
Endowment net assets, beginning of year	\$ 8,604	\$ 9,830
Restricted contributions	142	187
Dividends and interest	34	215
Realized and unrealized gain (loss) on investments	1,356	(840)
Gain (loss) on beneficial interest in perpetual trust	186	(107)
Amounts expended	(1,127)	(681)
Endowment net assets, end of year	\$ 9,195	\$ 8,604

**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.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 10 - ENDOWMENT FUND (Continued)**

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, this funding, in any year, will not exceed 5% of the market value of the fund averaged over the preceding three years.

**NOTE 11 - REVENUE RECOGNITION**

For the years ended December 31, 2019 and 2018, the Group recognized revenues of \$304 thousand and \$243 thousand, respectively, from amounts that were included in deferred revenues at the beginning of the respective years. At December 31, 2019, deferred revenues totaled \$485 thousand. The performance obligations surrounding these liabilities are expected to be fully satisfied within one year from the date of the statement of financial position.



**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 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.

The following table reflects the Group's financial assets (in thousands of dollars) as of December 31, 2019, reduced by amounts not available for general expenditures within one year:

Cash and cash equivalents	\$	556
Unconditional promises to give, net, collected in less than one year		232
Accounts receivable, net, collected in less than one year		24
Investments		16,690
Beneficial interest in perpetual trust		<u>1,257</u>
Total financial assets, excluding noncurrent receivables		18,759
Contractual or donor-imposed restrictions:		
Endowment fund investments		(6,863)
Beneficial interest in perpetual trust		(1,257)
Other donor restrictions		<u>(1,075)</u>
Financial assets available to meet cash needs for expenditures within one year	\$	<u><u>9,564</u></u>

**NOTE 13 - CONCENTRATIONS**

*Unconditional Promises to Give:*

Concentration of credit risk with respect to donor promises to give exists as two donors comprise 74% of the outstanding balance as of December 31, 2019.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

*Profit-Sharing Agreement:*

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 2019 and 2018 under the profit-sharing arrangement was approximately \$35 thousand and \$86 thousand, respectively.

**NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)**

*Lease Agreement:*

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.

*Litigation:*

The Group 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 Group.

**NOTE 15 - RELATED PARTY TRANSACTIONS**

The Foundation recorded contributions of approximately \$385 thousand and \$42 thousand from its trustees and related committees during 2019 and 2018, respectively. At December 31, 2019 and 2018, the Foundation had pledges receivable of approximately \$339 thousand and \$475 thousand, respectively, due from its trustees, related committees, and a company whose management serves as a trustee of the Foundation.

**NOTE 16 - SUBSEQUENT EVENT**

Subsequent to December 31, 2019, Coronavirus Disease 2019 (“COVID-19”) became a pandemic. As a result, economic uncertainties have arisen that may affect the Group’s operations. The impact of those uncertainties on the accompanying consolidated financial statements cannot be estimated.

NAVAL AVIATION MUSEUM FOUNDATION, INC. AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF DIVISIONAL INCOME & EXPENSES (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2019  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDING DECEMBER 31, 2018  
(In thousands of dollars)

	Museum support		Education	Administration		Fundraising	2019 total	2018 total
	Museum Support	Public Awareness	Fund Generators	Flight Academy	Investment Activity	Administration		
<b>Revenues and other Support</b>								
Sales, special events, tuition, and admissions			5,040	2,788			7,828	7,444
Contributions and membership	52			611			2,245	2,229
Investment gains( losses)					3,256		3,256	(1,294)
Miscellaneous income						11	11	7
<b>Total Revenues and other support</b>	<b>52</b>	<b>0</b>	<b>5,040</b>	<b>3,399</b>	<b>3,256</b>	<b>11</b>	<b>13,340</b>	<b>8,386</b>
<b>Operating Expenses</b>								
Advertising and Marketing		324	29	55			83	380
Bad debts				0			0	(45)
Bank, Broker, and credit card charges	2		142	34		0	194	142
Depreciation and amortization			295	896		46	1,237	1,314
Direct costs and costs of sales			1,925	1,593			3,518	3,313
Event expense							59	112
Insurance			70	143		61	274	238
Intercompany (revenue) expense							0	
Interest expense			31	4			35	48
MIS support	1	82	64	54		58	278	218
Office supplies	5	16	35	14		33	189	268
Other expenses		11	19	193		42	311	318
Professional Services			25	7		90	149	48
Repairs and maintenance	2		191	175			368	297
Restoration and museum projects	353						353	434
Salaries and benefits	617	19	1,456	933		311	3,773	3,590
Travel		2	12	20		6	54	61
Utilities and telephone			102	141		37	280	341
<b>Total operating expenses</b>	<b>980</b>	<b>454</b>	<b>4,396</b>	<b>4,262</b>	<b>0</b>	<b>684</b>	<b>11,563</b>	<b>11,077</b>
<b>CHANGE IN NET ASSETS</b>	<b>(928)</b>	<b>(454)</b>	<b>644</b>	<b>(863)</b>	<b>3,256</b>	<b>(673)</b>	<b>1,777</b>	<b>(2,691)</b>