

# **Intrepid Museum Foundation**

Financial Statements

April 30, 2017

## Independent Auditors' Report

### **Board of Trustees Intrepid Museum Foundation**

We have audited the accompanying financial statements of Intrepid Museum Foundation (the "Museum"), which comprise the statement of financial position as of April 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intrepid Museum Foundation as of April 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Summarized Comparative Information***

We have previously audited the Museum's April 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

*PKF O'Connor Davies, LLP*

September 7, 2017

## Intrepid Museum Foundation

Statement of Financial Position  
April 30, 2017  
(with comparative amounts at April 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 9,985,925	\$ 9,400,134
Pledges receivable, net	2,498,657	2,977,531
Grants receivable	460,664	227,230
Other receivables	1,478,013	1,162,337
Prepaid expenses and other assets	94,894	286,847
Investments	26,604,186	23,990,233
Fixed assets, net	<u>55,391,753</u>	<u>58,985,115</u>
	<u>\$ 96,514,092</u>	<u>\$ 97,029,427</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,454,155	\$ 3,969,263
Deferred revenue	3,813,222	2,103,178
Capital lease obligations	926,865	206,742
Due to federal agency	4,787,573	5,507,112
Notes payable under line of credit	3,725,000	6,225,000
Loan payable	<u>6,421,667</u>	<u>6,563,368</u>
Total Liabilities	<u>23,128,482</u>	<u>24,574,663</u>
Net Assets		
Unrestricted	44,237,271	45,342,822
Temporarily restricted	6,863,079	4,962,782
Permanently restricted	<u>22,285,260</u>	<u>22,149,160</u>
Total Net Assets	<u>73,385,610</u>	<u>72,454,764</u>
	<u>\$ 96,514,092</u>	<u>\$ 97,029,427</u>

See notes to financial statements

## Intrepid Museum Foundation

### Statement of Activities For the Year Ended April 30, 2017 (with summarized totals for the year ended April 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
<b>OPERATING SUPPORT AND REVENUE</b>					
Admissions and membership	\$ 20,971,775	\$ -	\$ -	\$ 20,971,775	\$ 18,160,989
Contributions (inclusive of contributions in-kind of \$1,202,722 and \$1,299,232)	2,320,246	51,000	-	2,371,246	2,679,408
Sponsorship income	323,331	-	-	323,331	292,372
Special event revenue, (net of costs with direct benefit to donors of \$301,750 and \$133,750)	1,201,275	-	-	1,201,275	949,450
Grant income	528,322	261,640	-	789,962	833,778
Rental income, net	3,034,781	-	-	3,034,781	2,794,861
Auxiliary activities	4,074,265	-	-	4,074,265	3,501,004
Investment return designated for operations	-	686,510	-	686,510	631,000
Spend rate allocation	686,510	(686,510)	-	-	-
Net assets released from restrictions	316,857	(316,857)	-	-	-
Total Operating Support and Revenue	33,457,362	(4,217)	-	33,453,145	29,842,862
<b>OPERATING EXPENSES</b>					
Program Expenses					
Education	5,052,725	-	-	5,052,725	4,640,800
Exhibits and museum services	18,909,920	-	-	18,909,920	16,780,798
Intrepid Fallen Heroes and Relief Funds	148,417	-	-	148,417	129,424
Other program costs	2,003,299	-	-	2,003,299	1,584,150
Total Program Expenses	26,114,361	-	-	26,114,361	23,135,172
Supporting Expenses					
Management and general	3,127,853	-	-	3,127,853	3,219,635
Fundraising	1,657,142	-	-	1,657,142	1,773,835
Total Supporting Expenses	4,784,995	-	-	4,784,995	4,993,470
Total Operating Expenses	30,899,356	-	-	30,899,356	28,128,642
Excess (Deficiency) of Operating Support and Revenue Over Operating Expenses	2,558,006	(4,217)	-	2,553,789	1,714,220
<b>NONOPERATING ACTIVITIES</b>					
Depreciation and amortization	(5,333,474)	-	-	(5,333,474)	(5,022,285)
Contributions and capital grants	1,662,391	-	136,100	1,798,491	4,526,034
Contract settlements, net	-	-	-	-	(2,492,609)
Loss on sale of asset	-	-	-	-	(7,267)
Surplus (deficiency) of investment return in excess of spend rate	7,526	1,904,514	-	1,912,040	(1,013,203)
Total Nonoperating Activities	(3,663,557)	1,904,514	136,100	(1,622,943)	(4,009,330)
Change in Net Assets	(1,105,551)	1,900,297	136,100	930,846	(2,295,110)
<b>NET ASSETS</b>					
Beginning of year	45,342,822	4,962,782	22,149,160	72,454,764	74,749,874
End of year	\$ 44,237,271	\$ 6,863,079	\$ 22,285,260	\$ 73,385,610	\$ 72,454,764

See notes to financial statements

## Intrepid Museum Foundation

### Statement of Cash Flows For the Year Ended April 30, 2017 (with comparative amounts for the year ended April 30, 2016)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 930,846	\$ (2,295,110)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	5,333,474	5,022,285
Net unrealized loss (gain) on investments	(656,717)	1,084,055
Net realized gain on sale of investments	(1,670,717)	(469,906)
Loss on sale of assets	-	7,267
Amortization of contract buyout	(123,333)	-
Amortization of discount on pledges receivable	(136,100)	(162,956)
Change in Operating Assets and Liabilities		
Pledges receivable	614,974	730,261
Grants receivable	(233,434)	3,314,825
Other receivables	(315,676)	(417,707)
Prepaid expenses and other assets	191,953	(178,226)
Accounts payable and accrued liabilities	(515,107)	(1,760,200)
Due to federal agency	(719,539)	5,507,112
Deferred revenue	1,833,377	817,956
Net Cash from Operating Activities	4,534,001	11,199,656
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in short-term investments	(807,108)	178,827
Proceeds from sale of investments	19,445,823	11,180,284
Purchases of investments	(18,925,234)	(11,582,428)
Acquisition of fixed assets, net of disposals	(678,125)	(5,457,160)
Net Cash from Investing Activities	(964,644)	(5,680,477)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Repayments) proceeds from line of credit borrowing	(2,500,000)	2,500,000
Repayments on loan	(170,833)	(137,917)
Payments on capital lease obligations	(312,733)	(703,036)
Net Cash from Financing Activities	(2,983,566)	1,659,047
Net Change in Cash	585,791	7,178,226
<b>CASH</b>		
Beginning of year	9,400,134	2,221,908
End of year	\$ 9,985,925	\$ 9,400,134
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the year for		
Interest	\$ 312,773	\$ 287,064
Purchases under capital lease obligations	1,032,856	-

See notes to financial statements

## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **1. Organization and Tax Status**

Intrepid Museum Foundation is a not-for-profit education corporation organized under the laws of the State of New York and chartered by the Board of Regents of the University of the State of New York. It operates the Intrepid Sea, Air & Space Museum (collectively referred to herein as the "Museum"), located primarily aboard the aircraft carrier, the former *USS Intrepid*, in New York City at Pier 86 in Hudson River Park. The Museum opened to the public on August 3, 1982.

The Museum also provides program support and administrative services to the Intrepid Fallen Heroes Fund (the "Fund"). The Fund performs services that were previously rendered and administered by the Museum. In 2003 the Fund was incorporated as a separate entity and the Museum transferred the responsibility to provide those services to the Fund, without consideration.

Similarly, the Museum also provides program support and administrative services to the Intrepid Relief Fund, a separately incorporated entity.

The Museum has been determined by the Internal Revenue Service to be a charitable organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). On November 1, 1983, the Museum was classified as a publicly supported organization and not as a private foundation under Section 509(a)(2) of the IRC, and qualifies for the maximum charitable contribution deduction by donors.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **2. Summary of Significant Accounting Policies *(continued)***

#### ***Measure of Operations***

The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, and net assets released from donor restrictions to support operations, and other funds to support current operating activities. The measure of operations excludes depreciation and amortization, grants and contributions restricted for capital expenditures or endowments, gains (losses) on sales of fixed assets, contract settlements, and investment returns on assets in excess of the investment spend rate.

#### ***Pledges Receivable***

Pledges receivable are recorded as contributions at the pledged amount, net of estimated uncollectible amounts, and discounted if due over more than one year using risk-adjusted interest rates applicable in the year in which the pledge was received. Amortization of the discount is included in contribution revenue. An estimated allowance for doubtful accounts is provided when necessary based on management's assessment of collectability on a pledge-by-pledge basis.

#### ***Fair Value Measurements***

The Museum follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investments Valuation and Income Recognition***

Investments are recorded at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.



## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **2. Summary of Significant Accounting Policies (*continued*)**

#### ***Exhibits, Intrepid and Collections***

The Museum capitalizes exhibit costs as they are incurred at their purchase cost. If exhibit costs are donated they are capitalized at their fair value on the date of donation. Upon the opening of an exhibit, the capitalized costs are amortized on a straight-line basis over their estimated useful life of 5 to 40 years. The net unamortized exhibit costs, together with the capitalized costs incurred to facilities infrastructure to accommodate the exhibits, are included in fixed assets on the accompanying statement of financial position.

Certain exhibits were placed on loan to the Museum by the United States Department of the Navy, (the "Navy") and British Airways ("BA") and other entities, and the value thereof is not readily determinable. Accordingly, the Museum has followed the accounting policy of most museums with respect to collections and exhibits on loan and has not included those assets in the financial statements. The submarine, *Growler*, was similarly loaned by the Navy to the Museum, and was opened to the public in May 1989. The Concorde G-BOAD was loaned to the Museum by BA on November 24, 2003 for an unspecified period of time.

On November 22, 2011, the Museum entered into a Contract for the Conditional Transfer of Title to NASA Historic Artifact(s) with National Aeronautics and Space Administration ("NASA") to acquire the Space Shuttle Orbiter, *Enterprise* ("*Enterprise*"). NASA transferred the title to the Museum subject to certain conditions and restrictions for a 20-year period after which time the title transfer is permanent. NASA physically delivered the *Enterprise* to the Museum at JFK Airport on April 27, 2012. The *Enterprise* exhibit was officially opened to the public on July 19, 2012.

Major repairs and improvements which preserve these collections and exhibits and/or increase the future economic usefulness of the assets are capitalized.

#### ***Fixed Assets***

Purchased fixed assets are recorded at cost and contributions of fixed assets are stated at their fair value at the time of contribution. The Museum capitalizes expenditures for property and equipment in excess of \$5,000, with depreciable lives greater than one year.

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets (ship and submarine renovations - 10 to 25 years, furniture, fixtures, equipment, and computer software - 3 to 5 years). Amortization of leasehold improvements is provided for on the straight-line method over the anticipated extended term of the pier lease - 30 years.

## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Fixed Assets (continued)***

Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value may be impaired. There was no impairment recognized in the years ended April 30, 2017 and 2016. Major renewals and betterments are capitalized and depreciated over the remaining useful life of the asset. All other maintenance and repairs are recorded as operating expenses.

#### ***Amortization***

Amortization of deferred loan costs is being provided on a straight-line basis (which approximates the interest method) over the term of the loan. At April 30, 2017, the deferred loan costs were fully amortized.

In accordance with new U.S. GAAP guidance, the prior year unamortized deferred loan costs were reclassified as a reduction of the related debt.

#### ***Deferred Revenue***

Membership fees are paid in advance and recognized over the term of the membership. Also, the Museum receives deposits for special events to be held at a future date and sells refundable admission tickets in advance for future museum visits. Revenue from special events and advance ticket sales is recognized when the event takes place or when the ticket holder visits the Museum. In addition, revenue received in advance in accordance with contractual and concession agreements, such as contract extension incentive fees, are recognized over the term of the agreement. Advances from grantors are deferred until expenditures are made.

#### ***Net Asset Presentation***

The Museum reports information regarding its financial position and activities as either unrestricted, temporarily restricted, or permanently restricted net assets based on donor restrictions.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets are funds that are fully available, at the discretion of management and the Board, for the Museum to utilize in any of its programs or supporting services.

Temporarily restricted net assets contain donor-imposed restrictions that permit the Museum to use or expend the assets as specified. The Museum records gifts of cash or other assets as temporarily restricted support if they are received with donor stipulations that limit their use either through purpose or time restrictions. These amounts are restricted primarily for educational programs and certain aircraft maintenance.

## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Net Asset Presentation (continued)***

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Museum to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. The principal amounts of these assets are permanently restricted as an endowment fund.

#### ***Contributions***

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets in the period received. The Museum reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for specified future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Museum reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

#### ***In-kind Contributions***

Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions are reflected in the accompanying statement of activities at their fair value at the time the services are rendered.

The free use of facilities, and goods donated as part of program services, fundraising activities, or management and general expenses are recorded in the accompanying financial statements at their fair value on date of use or receipt to the extent that such amounts can be reasonably estimated.

The Museum also receives donated services that do not require specific expertise, but which are nonetheless central to the Museum's operations. The estimated value of these services for the years ended April 30, 2017 and 2016 are based on the estimated dollar value of volunteer time and amounted to approximately \$207,000 and \$198,000 (17,250 and 16,500 hours of time) in each of the years. In accordance with U.S. GAAP the value of these services is not reflected in the accompanying financial statements.

## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **2. Summary of Significant Accounting Policies (*continued*)**

#### ***Rental Income***

Rental income from rental of Museum space for special events is recorded net of allowable discounts in the statement of activities. Rental discounts totaled \$168,500 and \$75,000, for the years ended April 30, 2017 and 2016.

#### ***Advertising***

Advertising costs are expensed as incurred and amounted to approximately \$1,034,161 and \$1,091,530, for the years ended April 30, 2017 and 2016.

#### ***Prior Year Summarized Financial Information***

The statement of activities presents prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended April 30, 2016, from which the summarized information was derived.

#### ***Functional Allocation of Expenses***

The Museum reports its expenses by their functional classification. Program expenses are the activities that result in services being provided to the public pursuant to the Museum's mission. Supporting expenses are classified as management and general activities and include all management and administrative functions, such as oversight and business management, but exclude direct conduct of program services and fundraising activities. Fundraising activities include developing and maintaining relations with major donors, foundations, organization membership and potential donors.

#### ***Accounting for Uncertainty in Income Taxes***

The Museum recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Museum had no uncertain tax positions that would require financial statement recognition or disclosure. The Museum is no longer subject to audits by the applicable taxing jurisdictions for tax years prior to fiscal 2014.

#### ***Subsequent Events***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is September 7, 2017.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 3. Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash, investments, and pledges receivable. The Museum maintains its cash with two financial institutions, which at times, may be in excess of federally insured limits. The Museum has not experienced any losses on its cash deposits.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of market risk.

A concentration of credit risk exists with respect to pledges receivable since amounts receivable from one source represented 94% of the total pledges receivable as of April 30, 2017 and 2016.

### 4. Pledges Receivable

Pledges receivable are due as follows at April 30, 2017:

2018	\$	726,916
2019		653,000
2020		600,000
2021		600,000
2022		152,877
		<u>2,732,793</u>
Less discount for present value		<u>(234,136)</u>
	\$	<u><u>2,498,657</u></u>

At April 30, 2017 and 2016, a pledge receivable totaling \$2,318,741 and \$2,782,641, net of present value discounts, was due from the estate of a deceased Board Trustee.

Of the total undiscounted pledges receivable amount, \$2,318,741 is pledged as permanently restricted for the endowment fund, \$89,000 is temporarily restricted for the Enterprise and education programs and \$90,916 is pledged for general operating purposes. The Museum applied discount rates at the time of receipt of pledges ranging from 3.2% to 5.2%, in determining the present value of the long term portion of the endowment pledge and temporarily restricted pledge receivable. Amortization of the discounts on pledges receivable amounted to \$136,100 and \$162,956 for the years ended April 30, 2017 and 2016, and is included in "Contributions and capital grants" in non-operating activities on the statement of activities.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 5. Investments

Investments consisted of the following as of April 30:

	2017	
	Cost	Fair Value
Short term investments	\$ 2,149,482	\$ 2,149,482
Common stock	11,381,646	13,576,754
Fixed income	6,975,871	6,777,125
Mutual funds	4,015,162	4,100,825
	\$ 24,522,161	\$ 26,604,186
	2016	
	Cost	Fair Value
Short term investments	\$ 1,342,373	\$ 1,342,373
Common stock	9,532,185	10,970,792
Fixed income	7,955,251	7,893,279
Mutual funds	3,259,830	3,783,789
	\$ 22,089,639	\$ 23,990,233

In accordance with the Museum's investment policy, the Board of Trustees approves a portion of the total investment return to support operations and programs each year. Such amounts approved for operations were capped at 3% of the total average value of the investments in 2017 and 2016. The total average value is based on the prior three calendar year fair values, which include 2013, 2014 and 2015 for fiscal 2017, and 2012, 2013 and 2014 for fiscal 2016. The amount approved for operations during the years ended April 30, 2017 and 2016 was \$686,510 and \$631,000.

Investment return for the fiscal years ended April 30, consisted of the following:

	2017	2016
Interest and dividend income	\$ 389,616	\$ 348,538
Net realized gains	1,670,717	469,906
Net unrealized gains (losses)	656,717	(1,084,055)
Investment management fees	(118,500)	(116,592)
Total Return on Investments	2,598,550	(382,203)
Approved by board authorization for Museum operations	(686,510)	(631,000)
Surplus (Deficiency) of Investment Return Over Amounts Designated for Operations	\$ 1,912,040	\$ (1,013,203)

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 6. Fair Value Measurements

The following are major categories of investments measured at estimated fair value at April 30:

	2017		
	Level 1	Level 2	Total
<b>Common Stock</b>			
Consumer	\$ 2,924,995	\$ -	\$ 2,924,995
Energy	863,248	-	863,248
Financials	2,134,819	-	2,134,819
Healthcare	1,931,621	-	1,931,621
Industrials	1,780,022	-	1,780,022
Information technology	3,443,585	-	3,443,585
Materials	498,464	-	498,464
<b>Fixed Income</b>			
U.S. corporate bonds	-	2,946,842	2,946,842
International developed bonds	-	425,060	425,060
U.S. Government-backed securities	3,405,223	-	3,405,223
Mutual funds	4,100,825	-	4,100,825
<b>Total Investments at Fair Value</b>	<b>\$ 21,082,802</b>	<b>\$ 3,371,902</b>	<b>24,454,704</b>
Temporary cash investments at cost			2,149,482
<b>Total Investments</b>			<b>\$ 26,604,186</b>
	2016		
	Level 1	Level 2	Total
<b>Common Stock</b>			
Consumer	\$ 2,490,696	\$ -	\$ 2,490,696
Energy	612,668	-	612,668
Financials	1,136,650	-	1,136,650
Healthcare	2,186,952	-	2,186,952
Industrials	1,286,421	-	1,286,421
Information technology	2,161,579	-	2,161,579
Materials	575,132	-	575,132
Telecommunication services	520,425	-	520,425
<b>Fixed Income</b>			
U.S. corporate bonds	-	3,769,711	3,769,711
International developed bonds	-	1,025,254	1,025,254
U.S. Government-backed securities	3,098,584	-	3,098,584
Mutual funds	3,783,788	-	3,783,788
<b>Total Investments at Fair Value</b>	<b>\$ 17,852,895</b>	<b>\$ 4,794,965</b>	<b>22,647,860</b>
Temporary cash investments at cost			1,342,373
<b>Total Investments</b>			<b>\$ 23,990,233</b>

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 7. Fixed Assets

Fixed assets consisted of the following as of April 30:

	2017	2016
Ship and submarine renovations	\$ 61,875,586	\$ 60,891,932
Exhibit and exhibit infrastructure costs	22,687,932	22,162,118
Leasehold improvements	21,796,692	21,805,670
Furniture, fixtures, equipment and computer software	8,938,753	8,728,263
	<u>115,298,963</u>	<u>113,587,983</u>
Less: Accumulated depreciation	(59,907,210)	(54,602,868)
	<u>\$ 55,391,753</u>	<u>\$ 58,985,115</u>

Depreciation expense totaled \$5,304,342 and \$5,017,745 for the years ended April 30, 2017 and 2016.

### 8. Capital Lease Obligations

During 2012, the Museum entered into two capital lease agreements to purchase computer equipment and to finance various equipment upgrades and refurbishment projects. The capital leases commenced on February 1 and June 1, 2012, and required 36 and 48 monthly payments of principal and interest imputed at an annual interest rate of 3.27% and 2.91%. As of April 30, 2016, both capital leases were satisfied.

During 2013, the Museum entered into a capital lease agreement for the acquisition of a structure to house the *Enterprise* and related exhibits. The lease requires 48 monthly payments of principal and interest, imputed at an annual rate of 3.28%. As of April 30, 2017, the capital lease was satisfied.

During 2017, the Museum entered into a capital lease agreement for the acquisition of a structure to house its aircraft restoration activities. The lease requires 48 monthly payments of principal and interest, imputed at an annual rate of 3.28%.

Future minimum lease payments are as follows for the years ending April 30:

2018	\$ 281,108
2019	281,108
2020	281,108
2021	187,404
	<u>1,030,728</u>
Less: Interest	(103,863)
	<u>\$ 926,865</u>

The accumulated depreciation on these assets amounted to \$68,857 and \$1,193,857 as of April 30, 2017 and 2016.



## **Intrepid Museum Foundation**

Notes to Financial Statements  
April 30, 2017

### **9. Due to Federal Agency**

In September 2015, the Museum received a capital grant payment from a federal agency that exceeded the requested amount by approximately \$5,507,000. These funds are held in an interest-bearing account. In accordance with agency instructions, the Museum will reimburse the unused funds upon final project closeout. During fiscal year ended April 30, 2017, this amount was reduced by \$751,257 as additional expenses related to the capital projects were incurred.

### **10. Debt**

#### ***Notes Payable under Line of Credit***

The Museum maintains a line of credit in the amount of \$8,000,000 maturing on October 31, 2017. At the election of the Museum at the time an advance is made by the lender, interest will be at either a fluctuating rate per annum equal to the prime rate or a fixed rate equal to 0.65% per annum in excess of LIBOR. The line provides for monthly payments of interest only during the term of the borrowings for loans made under the fluctuating prime rate, and on the last day of the interest period for fixed rate LIBOR loans. Additionally, the Museum pays a facility fee to the bank in an amount equal to 0.15% on the average daily unused amount of the line during such period. Under the terms of this line of credit agreement, the Museum is required to maintain at all times a minimum of \$10,000,000 in cash and investments, as defined in the agreement. The balance outstanding under the line of credit at April 30, 2017 and 2016 was \$3,725,000 and \$6,225,000.

#### ***Loan Payable***

On October 1, 2012, the Museum entered into a Term Loan (the "2012 Term Loan") agreement in the principal amount of \$7,080,000 for a term of seven years with a balloon payment of \$6,020,000 due on September 30, 2019. The 2012 Term Loan required monthly payments of principal, amortized on a 25 year basis, and interest, calculated at the fixed rate of 2.88% per annum. The proceeds of the 2012 Term Loan were used to redeem the 30-year Adjustable Rate Demand Taxable Revenue Bonds, Series 2006 ("Bonds").

The 2012 Term Loan Agreement contained certain covenants governing reporting requirements and restrictions affecting fixed charge coverage ratios, balances in cash and investments and certain operational covenants, all of which have been met by the Museum.

On November 21, 2016, the Museum refinanced the 2012 Term Loan in the principal amount of \$6,501,667 for the term of ten years with a balloon payment of \$4,375,000 due on October 31, 2026 (the "Loan"). The Loan requires monthly payments of principal, amortized on a 25 year basis, and interest, calculated at the fixed rate of 2.99% per annum. The proceeds of the Loan were used to pay the 2012 Term Loan in full.

The Museum did not incur closing costs related to the 2016 refinancing transaction. Accordingly, in fiscal year 2017, the Museum amortized the remaining balance of the unamortized balance of deferred loan costs at April 30, 2016 which totaled \$29,132.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 10. Debt (continued)

#### *Loan Payable (continued)*

Total amortization expense (inclusive of bond issuance and loan costs) amounted to \$29,132 and \$4,540 for the years ended April 30, 2017 and 2016.

Future principal payments are as follows for the fiscal years ending April 30:

2018	\$	165,833
2019		175,833
2020		188,750
2021		200,833
2022		213,749
Thereafter		<u>5,476,669</u>
	\$	<u>6,421,667</u>

Total interest expense incurred for the years ended April 30, 2017 and 2016 was \$312,773 and \$293,453, which included interest expense for the Museum's line of credit, loan payable and capital lease obligations.

### 11. Grant Income

During the years ended April 30, 2017 and 2016, the Museum was awarded various grants from Federal, New York State and New York City governmental agencies, corporations and private foundations for use in capital projects and for programs and general operational support.

### 12. Commitment

*Pier Lease:* The Museum is committed under an operating lease with the City of New York ("NYC") for Pier 86, dated January 1, 1982. The Hudson River Park Act of 1998 established the Hudson River Park Trust (HRPT) and granted it control over certain NYC-owned real property and improvements within Hudson River Park, including property and improvements located at Pier 86. The possessory interest was subject to the Intrepid lease. The lease expired on December 31, 2014.

HRPT granted an extension of the lease at the same terms of the expired lease and the parties continue to negotiate renewal terms of the lease. Management anticipates the terms of the lease renewal to be substantially the same as the expired lease: a base rent of \$1 per annum and the Museum is responsible for all necessary maintenance and repairs to the pier, including the concrete deck, pier structure and piling ("Pier Work"). During the years ended April 30, 2017 and 2016, the Museum recognized a contribution in-kind and the related rent expense of \$462,000, representing the fair value of renting Pier 86.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 13. Lease and Sponsorship Agreements

*Gift Shop:* The Museum entered into an operating lease agreement with a third party company to lease portions of the ground and second floors of the Welcome Center adjacent to the Intrepid and certain space in the Space Shuttle Pavilion effective June 5, 2015. The lease term is for seven years plus a five-year extension term. Under the terms of the lease agreement, the Museum receives an annual minimum rent payment of \$750,000 based on applicable percentage on "Annual Net Gross Sales" (as defined in the agreement), commencing upon full occupancy of the Welcome Center and subject to the Museum meeting certain attendance thresholds. The Gift Shop operator fully occupied the Welcome Center on August 4, 2015. Upon execution of the lease agreement, the tenant was also required to make a "buy-out contribution" payment of \$583,334, as defined in the agreement. The payment is included in deferred revenue and will be recognized over the terms of the lease agreement.

Future minimum annual rent income under the lease is as follows for the years ending April 30:

2018	\$ 750,000
2019	750,000
2020	750,000
2021	750,000
2022	750,000
	<u>\$3,750,000</u>

*Food Services:* The Museum entered into a Retail Lease Agreement (the "Agreement") with a restaurant provider on April 30, 2009. The restaurant provider leased space on the Mess Deck of the Intrepid and on the second floor of the Welcome Center to operate two food service centers. The lease was to expire on May 1, 2019. This lease was terminated on May 5, 2015 by mutual consent and resulted in a settlement expense of \$2,569,000 which is reported as a contract settlement in the accompanying fiscal 2016 financial statements.

Effective July 28, 2015 the Museum entered into a license agreement and subsequent extensions which expired December 31, 2016 with a third party operator to be the exclusive provider of daily food and beverages while the parties negotiated a long-term lease agreement. The license fee to be paid to the Museum is 17.5% of net gross sales. Effective January 1, 2017, the Museum executed a lease term of ten years with this operator. Under the terms of the lease agreement, the Museum receives an annual minimum rent payment of \$500,000 based on applicable percentage on "Annual Net Gross Sales" (as defined in the agreement), commencing upon full occupancy of the Welcome Center and subject to the Museum meeting certain attendance thresholds. At April 30, 2017, the Food Services operator had not occupied the space in the Welcome Center. Upon execution of the lease agreement, the tenant was also required to make a "buy-out contribution" payment of \$1,200,000, as defined in the agreement.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 13. Lease and Sponsorship Agreements *(continued)*

Future minimum annual rent income under the lease is as follows:

For the Year Ending April 30	Food Service
2018	\$ 500,000
2019	500,000
2020	500,000
2021	500,000
2022	500,000
Thereafter	<u>2,166,667</u>
	<u>\$ 4,666,667</u>

The Museum received rental income related to such agreements for the years ended April 30, 2017 and 2016 of \$1,352,891 and \$466,382.

The Museum also entered into certain agreements with concessionaires to provide catering services and interactive exhibits. The terms of these agreements call for revenue sharing and commissions and are exclusive. The agreements terminate in 2018 and 2020.

*Sponsorship Agreements:* The Museum entered into certain agreements with corporations that provide for exclusive sponsorship rights for the Museum complex in the amount of \$323,000 and \$292,000 for years ended April 30, 2017 and 2016.

### 14. Net Assets Restrictions and Releases from Restrictions

Temporarily restricted net assets were available for the following purposes at April 30:

	<u>2017</u>	<u>2016</u>
<b>Purpose Restrictions</b>		
Educational programs	\$ 238,144	\$ 152,330
Exhibition programs	<u>96,707</u>	<u>186,738</u>
	334,851	339,068
<b>Timing Restriction</b>		
Accumulated earnings on endowment funds	<u>6,528,228</u>	<u>4,623,714</u>
	<u>\$ 6,863,079</u>	<u>\$ 4,962,782</u>

Permanently restricted net assets at April 30, 2017 and 2016 consisted of endowment funds, income from which is available principally for general operations.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 14. Net Assets Restrictions and Releases from Restrictions (*continued*)

The following amounts were released from donor restrictions by authorization of the donor and/or the occurrence of the event for which the donor specified such donation was to be used for the years ended April 30:

	<u>2017</u>	<u>2016</u>
<b>Purpose Restrictions Satisfied</b>		
Educational programs	\$ 216,857	\$ 227,023
Exhibition capital campaign	100,000	191,900
	<u>\$ 316,857</u>	<u>\$ 418,923</u>
<b>Timing Restrictions Met</b>	<u>\$ 686,510</u>	<u>\$ 631,000</u>

### 15. Endowment Fund

Substantially all investments are held as part of the Museum's endowment fund. The Museum's endowment consists of various individual gifts established by donors primarily to support the mission of the Museum. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### ***Interpretation of Relevant Law***

The Board of Trustees (the "Board") of the Museum has interpreted the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary or in those cases where the law allows appropriation for spending of the original gift amounts.

As a result of this interpretation, the Board 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, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

#### ***Return Objective and Risk Parameters***

Endowment assets consist of funds that the Museum must hold in perpetuity as well as accumulated earnings not yet appropriated. There are no donor restrictions on the accumulated earnings.

## Intrepid Museum Foundation

Notes to Financial Statements  
April 30, 2017

### 15. Endowment Fund (continued)

#### *Return Objective and Risk Parameters (continued)*

The Museum's investment policy, as approved by the Board in January 2013, utilizes a total return investment approach. Endowment assets are invested in a number of different asset classes and investment strategies to diversify investments and provide a balance that will enhance the long-term total return of the overall investment portfolio while avoiding undue risk or concentration in any single asset class or investment. Target allocation percentages and operating ranges are established for various asset classes. Performance is measured against various composite benchmark indices reflecting target asset allocation.

State law allows the Board to appropriate as much of net appreciation as is prudent considering the Museum's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

Under the Museum's spending policy, up to 5% of the average fair and unrestricted value of the investments at the end of the prior three calendar years (Note 6) is available for operations. The amount approved for operations during the years ended April 30, 2017 and 2016 was \$686,510 and \$631,000 (3%).

The following is a reconciliation of the investment activity in the donor restricted funds for the years ended April 30, 2017 and 2016:

	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Balance, April 30, 2015	\$ 5,614,546	\$ 18,766,519	\$ 24,381,065
Contributions	-	600,000	600,000
Spend rate appropriation	(631,000)	-	(631,000)
Investment return, net	<u>(359,832)</u>	<u>-</u>	<u>(359,832)</u>
Balance, April 30, 2016	4,623,714	19,366,519	23,990,233
Contributions	-	600,000	600,000
Spend rate appropriation	(686,510)	-	(686,510)
Investment return, net	2,591,024	-	2,591,024
Balance, April 30, 2017	<u>\$ 6,528,228</u>	<u>\$ 19,966,519</u>	<u>\$ 26,494,747</u>

### 16. Qualified Retirement Savings Plan

The Museum sponsors a retirement savings plan under Section 403(b) of the IRC. The plan allows for all eligible, participating employees to elect to defer salary on a pre-tax basis and invest such amounts in a wide array of mutual funds managed by an independent, unrelated investment manager. The Museum made no contribution to the plan for the years ended April 30, 2017 and 2016.

## **Intrepid Museum Foundation**

Notes to Financial Statements

April 30, 2017

### **17. Risk and Uncertainties**

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

### **18. Litigation**

From time to time the Museum is a party to litigation matters that have arisen in the normal course of operations, including complaints alleging personal injuries which were sustained by visitors to the Museum and employment practice complaints filed by current and former employees. In management's opinion, the ultimate liability for these claims will not be in excess of the Museum's insurance coverage. Accordingly, the Museum's cost will be limited to its insurance deductible or retainage for each occurrence.

\* \* \* \* \*

# **Intrepid Museum Foundation**

Supplementary Financial Information



## Intrepid Museum Foundation

### Schedule of Functional Expenses For the Year Ended April 30, 2017 (with summarized totals for the year ended April 30, 2016)

	Program Services				Total Program Services	Management and General	Fundraising	2017 Total	2016 Total
	Education	Exhibits and Museum Services	Intrepid Fallen Heroes and Relief Funds	Other Program Costs					
Salaries and wages	\$ 3,124,495	\$ 8,820,813	\$ 92,510	\$ 964,731	\$ 13,002,549	\$ 1,672,447	\$ 924,712	\$ 15,599,708	\$ 14,399,668
Payroll taxes and other employment expenses	747,457	2,193,044	15,024	119,472	3,074,997	337,151	162,998	3,575,146	3,338,672
Rent	68,237	310,048	-	-	378,285	81,682	2,033	462,000	462,000
Repairs and maintenance	16,850	1,091,012	5,799	34,185	1,147,846	19,883	1,081	1,168,810	1,149,926
Utilities and telephone	25,476	993,321	11,832	511	1,031,140	45,922	16,712	1,093,774	1,131,942
Property and casualty insurance	119,122	541,187	16,453	-	676,762	139,793	3,549	820,104	880,844
Contract services and equipment rentals	9,862	294,060	1,814	520	306,256	18,664	5,787	330,707	248,737
Office expense and supplies	58,254	291,411	2,341	5,548	357,554	133,853	36,250	527,657	579,140
Event and program expenses	216,148	1,391,249	-	259,106	1,866,503	67,233	88,512	2,022,248	1,064,194
Advertising and marketing expenses	192,259	1,011,141	-	418,102	1,621,502	13,195	95,495	1,730,192	1,761,331
Professional and consulting fees	234,778	1,153,382	246	57,404	1,445,810	501,369	251,065	2,198,244	1,866,795
Interest expense	45,958	208,759	1,978	-	256,695	54,719	1,359	312,773	293,454
Other operating expenses	193,829	610,493	420	143,720	948,462	41,942	67,589	1,057,993	951,939
Total Expenses Before Depreciation and Amortization	5,052,725	18,909,920	148,417	2,003,299	26,114,361	3,127,853	1,657,142	30,899,356	28,128,642
Depreciation and amortization	787,754	3,587,092	15,670	-	4,390,516	919,491	23,467	5,333,474	5,022,285
Total Expenses	<u>\$ 5,840,479</u>	<u>\$ 22,497,012</u>	<u>\$ 164,087</u>	<u>\$ 2,003,299</u>	<u>\$ 30,504,877</u>	<u>\$ 4,047,344</u>	<u>\$ 1,680,609</u>	<u>\$ 36,232,830</u>	<u>\$ 33,150,927</u>
Total Expenses - 2016	<u>\$ 5,071,040</u>	<u>\$ 20,794,114</u>	<u>\$ 145,115</u>	<u>\$ 1,584,150</u>	<u>\$ 27,594,419</u>	<u>\$ 3,751,623</u>	<u>\$ 1,804,885</u>	<u>\$ 33,150,927</u>	

See independent auditors' report