

Intrepid Museum Foundation

Financial Statements

December 31, 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 December 31, 2017, and the related statements of activities and cash flows for the eight months 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 December 31, 2017, and the changes in its net assets and its cash flows for the eight months then ended in accordance with accounting principles generally accepted in the United States of America.

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

April 11, 2018

Intrepid Museum Foundation

Statement of Financial Position December 31, 2017

ASSETS

Cash	\$ 12,900,690
Pledges receivable, net	1,922,685
Grants receivable	583,406
Other receivables	2,358,198
Prepaid expenses and other assets	204,837
Investments	28,865,725
Fixed assets, net	<u>52,903,460</u>
	<u>\$ 99,739,001</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued liabilities	\$ 3,051,793
Deferred revenue	3,368,069
Capital lease obligation	765,792
Due to federal agency	4,787,573
Notes payable under line of credit	3,725,000
Loan payable	<u>6,312,500</u>
Total Liabilities	<u>22,010,727</u>
Net Assets	
Unrestricted	46,639,831
Temporarily restricted	8,691,482
Permanently restricted	<u>22,396,961</u>
Total Net Assets	<u>77,728,274</u>
	<u>\$ 99,739,001</u>

See notes to financial statements

Intrepid Museum Foundation

Statement of Activities For the Eight Months Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING SUPPORT AND REVENUE				
Admissions and membership	\$ 14,475,585	\$ -	\$ -	\$ 14,475,585
Contributions (inclusive of contributions in-kind of \$1,013,777)	1,926,147	-	-	1,926,147
Sponsorship income	240,364	-	-	240,364
Special event revenue, (net of costs with direct benefit to donors of \$383,750)	3,236,500	25,000	-	3,261,500
Grant income	335,751	98,800	-	434,551
Rental income, net	2,524,247	-	-	2,524,247
Auxiliary activities	3,525,985	-	-	3,525,985
Investment return designated for operations	-	482,635	-	482,635
Spend rate allocation	482,635	(482,635)	-	-
Net assets released from restrictions	129,038	(129,038)	-	-
Total Operating Support and Revenue	26,876,252	(5,238)	-	26,871,014
OPERATING EXPENSES				
Program Expenses				
Education	3,786,822	-	-	3,786,822
Exhibits and museum services	12,535,485	-	-	12,535,485
Intrepid Fallen Heroes and Relief Funds	102,236	-	-	102,236
Other program costs	1,488,478	-	-	1,488,478
Total Program Expenses	17,913,021	-	-	17,913,021
Supporting Expenses				
Management and general	1,753,364	-	-	1,753,364
Fundraising	1,524,603	-	-	1,524,603
Total Supporting Expenses	3,277,967	-	-	3,277,967
Total Operating Expenses	21,190,988	-	-	21,190,988
Excess (Deficiency) of Operating Support and Revenue Over Operating Expenses	5,685,264	(5,238)	-	5,680,026
NONOPERATING ACTIVITIES				
Depreciation and amortization	(3,412,470)	-	-	(3,412,470)
Contributions and capital grants	124,936	-	111,701	236,637
Surplus of investment return in excess of spend rate	4,830	1,833,641	-	1,838,471
Total Nonoperating Activities	(3,282,704)	1,833,641	111,701	(1,337,362)
Change in Net Assets	2,402,560	1,828,403	111,701	4,342,664
NET ASSETS				
Beginning of period	44,237,271	6,863,079	22,285,260	73,385,610
End of period	\$ 46,639,831	\$ 8,691,482	\$ 22,396,961	\$ 77,728,274

See notes to financial statements

Intrepid Museum Foundation

Statement of Cash Flows For the Eight Months Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 4,342,664
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	3,412,470
Net unrealized gain on investments	(1,210,596)
Net realized gain on sale of investments	(823,101)
Amortization of contract buyout	(135,550)
Amortization of discount on pledges receivable	(111,701)
Change in Operating Assets and Liabilities	
Pledges receivable	687,673
Grants receivable	(122,742)
Other receivables	(880,186)
Prepaid expenses and other assets	(109,943)
Accounts payable and accrued liabilities	(402,362)
Deferred revenue	(309,602)
Net Cash from Operating Activities	<u>4,337,024</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Change in short-term investments	243,520
Proceeds from sale of investments	11,269,184
Purchases of investments	(11,740,546)
Acquisition of fixed assets	(924,177)
Net Cash from Investing Activities	<u>(1,152,019)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayments on loan	(109,167)
Payments on capital lease obligation	(161,073)
Net Cash from Financing Activities	<u>(270,240)</u>
Net Change in Cash	2,914,765

CASH

Beginning of period	<u>9,985,925</u>
End of period	<u>\$ 12,900,690</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for	
Interest	\$ 212,550

See notes to financial statements

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 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).

Fiscal Year End Change

The Museum's Board of Trustees adopted a December 31 fiscal year end financial reporting cycle from the Museum's previous April 30 fiscal year end effective May 1, 2017. Accordingly, the accompanying statements of activities and cash flows include only eight months of activity. The financial reporting cycle hereafter will be for twelve months beginning January 1 and ending December 31.

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
December 31, 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, 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
December 31, 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
December 31, 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 eight months ended December 31, 2017. 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.

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.

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.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

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

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 eight months ended December 31, 2017 are based on the estimated dollar value of volunteer time and amounted to approximately \$164,340 (13,695 hours of time). 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
December 31, 2017

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

Rental Income

Income from the rental of Museum space for special events is recorded net of allowable discounts in the statement of activities. Rental discounts totaled \$99,500 for the eight months ended December 31, 2017.

Advertising

Advertising costs are expensed as incurred and amounted to approximately \$708,000 for the eight months ended December 31, 2017.

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 examinations 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 April 11, 2018.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 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 95% of the total pledges receivable as of December 31, 2017.

4. Pledges Receivable

Pledges receivable are due as follows at December 31, 2017:

2018	\$	692,244
2019		600,000
2020		600,000
2021		152,877
		<u>2,045,121</u>
Less discount for present value		<u>(122,436)</u>
	\$	<u>1,922,685</u>

Total pledges receivable at December 31, 2017 include a pledge totaling \$1,830,442, net of present value discounts, from the estate of a deceased Board Trustee.

Of the total undiscounted pledges receivable amount, \$1,952,877 is pledged as permanently restricted for the endowment fund, \$62,044 is temporarily restricted for the Enterprise and education programs and \$30,200 is pledged for general operating purposes. The Museum applied discount rates at the time of receipt of the 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 \$111,701 for the eight months ended December 31, 2017, and is included in "Contributions and capital grants" in non operating activities on the statement of activities.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

5. Investments

Investments consisted of the following as of December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
Short term investments	\$ 1,905,963	\$ 1,905,963
Common stock	11,362,114	15,113,232
Fixed income	7,585,453	7,399,453
Mutual funds	4,063,933	4,447,077
	<u>\$ 24,917,463</u>	<u>\$ 28,865,725</u>

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. The total average value is based on the prior three calendar year fair values, which include 2014, 2015 and 2016 for December 31, 2017. The amount approved for operations during the eight months ended December 31, 2017 was \$482,635.

Investment return for the eight months ended December 31, 2017, consisted of the following:

Interest and dividend income	\$ 373,627
Net realized gains	823,101
Net unrealized gains	1,210,596
Investment management fees	<u>(86,218)</u>
Total Return on Investments	2,321,106
Approved by board authorization for Museum operations	<u>(482,635)</u>
Surplus of Investment Return Over Amounts Designated for Operations	<u>\$ 1,838,471</u>

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

6. Fair Value Measurements

The following are major categories of investments measured at estimated fair value at December 31, 2017:

	Level 1	Level 2	Total
Common Stock			
Consumer	\$ 3,740,487	\$ -	\$ 3,740,487
Energy	579,211	-	579,211
Financials	1,999,942	-	1,999,942
Healthcare	1,650,600	-	1,650,600
Industrials	2,405,897	-	2,405,897
Information technology	3,558,616	-	3,558,616
Materials	671,235	-	671,235
Telecommunications	266,424	-	266,424
Real estate	240,820	-	240,820
Fixed Income			
U.S. corporate bonds	-	3,551,563	3,551,563
International developed bonds	-	794,907	794,907
U.S. Government-backed securities	3,052,983	-	3,052,983
Mutual funds	4,447,077	-	4,447,077
Total Investments at Fair Value	\$ 22,613,292	\$ 4,346,470	26,959,762
Temporary cash investments at cost			1,905,963
Total Investments			\$ 28,865,725

7. Fixed Assets

Fixed assets consisted of the following as of December 31, 2017:

Ship and submarine renovations	\$ 62,262,530
Exhibit and related infrastructure costs	22,909,031
Leasehold improvements	21,796,692
Furniture, fixtures, equipment and computer software	9,222,463
Work in progress	32,422
	116,223,138
Less: Accumulated depreciation	(63,319,678)
	\$ 52,903,460

Depreciation expense totaled \$3,412,470 for the eight months ended December 31, 2017.

Intrepid Museum Foundation

Notes to Financial Statements
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8. Capital Lease Obligation

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 ended December 31:

2018	\$	281,108
2019		281,108
2020		281,106
		<u>843,324</u>
Less: Interest		<u>(77,530)</u>
	\$	<u>765,794</u>

The cost of the asset amounted to \$1,032,856 as of December 31, 2017. The accumulated depreciation on the asset amounted to \$91,373 as of December 31, 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. At December 31, 2017, the amount due to the federal agency is \$4,787,573.

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, 2020. 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 December 31, 2017 was \$3,725,000.

Intrepid Museum Foundation

Notes to Financial Statements
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10. Debt (continued)

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.

Future principal payments are as follows for the fiscal years ending December 31:

2018	\$ 172,500
2019	183,750
2020	197,500
2021	208,750
2022	222,500
Thereafter	<u>5,327,500</u>
	\$ <u>6,312,500</u>

Total interest expense incurred for the eight months ended December 31, 2017 was \$212,550 which included interest expense for the Museum's line of credit, loan payable and capital lease obligation.

11. Grant Income

During the eight months ended December 31, 2017, 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.

Intrepid Museum Foundation

Notes to Financial Statements
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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 eight months ended December 31, 2017, the Museum recognized a contribution in-kind and the related rent expense of \$308,000, representing the fair value of renting Pier 86.

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 of "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 December 31:

2018	\$	750,000
2019		750,000
2020		750,000
2021		750,000
2022		312,500
	\$	<u>\$3,312,500</u>

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

13. Lease and Sponsorship Agreements (*continued*)

Food Service: 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 of "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. 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. 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 December 31:

2018	\$	500,000
2019		500,000
2020		500,000
2021		500,000
2022		500,000
Thereafter		<u>2,000,000</u>
	\$	<u>4,500,000</u>

The Museum received rental income related to such agreements for the eight months ended December 31, 2017 of \$1,248,043.

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 \$240,364 for the eight months ended December 31, 2017.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

14. Net Assets Restrictions and Releases from Restrictions

Temporarily restricted net assets were available for the following purposes at December 31, 2017:

Purpose Restrictions

Educational programs	\$	199,674
Exhibition programs		104,940
Salute to Freedom Gala 2018		25,000
		<u>329,614</u>

Timing Restriction

Accumulated earnings on endowment funds		8,361,868
	\$	<u>8,691,482</u>

Permanently restricted net assets at December 31, 2017 consisted of endowment funds, income from which is available principally for general operations.

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 eight months ended December 31, 2017:

Purpose Restrictions Satisfied

Educational programs	\$	119,038
Exhibition capital campaign		10,000
	\$	<u>129,038</u>

Timing Restrictions Met	\$	<u>482,635</u>
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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.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

15. Endowment Fund (*continued*)

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.

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 5) is available for operations. The amount approved for operations during the eight months ended December 31, 2017 was \$482,635 (3%).

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2017

15. Endowment Fund (continued)

Return Objective and Risk Parameters (continued)

The following is a reconciliation of the investment activity in the donor restricted funds for the eight months ended December 31, 2017:

	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Balance, April 30, 2017	\$ 6,528,228	\$ 19,966,519	\$ 26,494,747
Contributions	-	600,000	600,000
Spend rate appropriation	(482,635)	-	(482,635)
Investment return, net	<u>2,316,276</u>	-	<u>2,316,275</u>
Balance, December 31, 2017	<u>\$ 8,361,868</u>	<u>\$ 20,566,519</u>	<u>\$ 28,928,387</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 eight months ended December 31, 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 retainer for each occurrence.

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Intrepid Museum Foundation

Supplementary Financial Information

Intrepid Museum Foundation

Schedule of Functional Expenses For the Eight Months Ended December 31, 2017

	Program Services				Total Program Services	Management and General	Fundraising	Total
	Education	Exhibits and Museum Services	Intrepid Fallen Heroes and Relief Funds	Other Program Costs				
Salaries and wages	\$ 2,359,257	\$ 6,244,770	\$ 52,711	\$ 771,076	\$ 9,427,814	\$ 957,782	\$ 554,751	\$ 10,940,347
Payroll taxes and other employment expenses	549,729	1,668,793	3,742	111,394	2,333,658	178,884	90,915	2,603,457
Rent	45,492	206,699	1,355	-	253,546	53,099	1,355	308,000
Repairs and maintenance	14,743	540,397	31,462	6,421	593,023	16,631	21,595	631,249
Utilities and telephone	21,685	620,728	-	237	642,650	26,645	10,343	679,638
Property and casualty insurance	88,867	403,783	2,647	-	495,297	103,728	2,647	601,672
Contract services and equipment rentals	8,575	245,889	17	-	254,481	12,104	3,843	270,428
Office expense and supplies	35,180	139,900	1,382	871	177,333	46,366	17,829	241,528
Event and program expenses	142,493	400,592	-	226,723	769,808	34,394	649,196	1,453,398
Advertising and marketing expenses	144,798	742,003	-	168,514	1,055,315	16,163	54,049	1,125,527
Professional and consulting fees	192,486	748,485	3,661	34,132	978,764	234,774	59,936	1,273,474
Interest expense	29,957	142,884	2,362	-	175,203	36,418	929	212,550
Other operating expenses	153,560	430,562	2,897	169,110	756,129	36,376	57,215	849,720
Total Expenses Before Depreciation and Amortization	3,786,822	12,535,485	102,236	1,488,478	17,913,021	1,753,364	1,524,603	21,190,988
Depreciation and amortization	504,022	2,290,108	15,015	-	2,809,145	588,310	15,015	3,412,470
Total Expenses	\$ 4,290,844	\$ 14,825,593	\$ 117,251	\$ 1,488,478	\$ 20,722,166	\$ 2,341,674	\$ 1,539,618	\$ 24,603,458

See independent auditors' report