

Intrepid Museum Foundation and Subsidiary

Consolidated Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

April 30, 2014

Intrepid Museum Foundation and Subsidiary

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April 30, 2014

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Independent Auditors' Report

Board of Trustees Intrepid Museum Foundation and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Intrepid Museum Foundation and Subsidiary (the "Museum") which comprise the consolidated statement of financial position as of April 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intrepid Museum Foundation and Subsidiary as of April 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Museum's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 17, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2013 is consistent, in all material respects, with the audited consolidated 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 consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2014 on our consideration of the Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control over financial reporting and compliance.

O'Connor Davies, LLP

September 17, 2014

Intrepid Museum Foundation and Subsidiary

Consolidated Statement of Financial Position

April 30, 2014

(with comparative amounts for April 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 4,457,786	\$ 4,072,613
Pledges receivable, net	4,085,278	4,572,091
Grants receivable	71,613	257,635
Insurance claims receivable	3,320,070	3,761,331
Other receivables	943,626	732,032
Prepaid expenses and other assets	277,004	74,917
Investments	22,805,039	20,159,707
Fixed assets, net	54,193,365	55,857,725
Deferred loan costs, net	<u>38,212</u>	<u>42,752</u>
	<u>\$ 90,191,993</u>	<u>\$ 89,530,803</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,241,746	\$ 3,903,468
Deferred revenue	1,622,280	1,277,684
Capital lease obligations	1,597,720	2,272,441
Notes payable under line of credit	3,725,000	4,250,000
Loan payable	<u>6,871,250</u>	<u>7,004,167</u>
Total Liabilities	<u>17,057,996</u>	<u>18,707,760</u>
Net Assets		
Unrestricted	46,137,640	45,657,173
Temporarily restricted	5,188,132	3,559,852
Permanently restricted	<u>21,808,225</u>	<u>21,606,018</u>
Total Net Assets	<u>73,133,997</u>	<u>70,823,043</u>
	<u>\$ 90,191,993</u>	<u>\$ 89,530,803</u>

See notes to consolidated financial statements

Intrepid Museum Foundation and Subsidiary

Consolidated Statement of Activities For the Year Ended April 30, 2014 (with summarized totals for the year ended April 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
OPERATING SUPPORT AND REVENUE					
Admissions and membership	\$ 17,633,329	\$ -	\$ -	\$ 17,633,329	\$ 17,609,983
Contributions (inclusive of contributions in-kind of \$1,100,012 and \$1,068,305)	2,082,225	129,936	-	2,212,161	3,147,636
Sponsorship income	208,332	-	-	208,332	989,703
Special event revenue, (net of costs with direct benefit to donors of \$107,250 and \$75,000)	1,148,408	-	-	1,148,408	1,149,850
Grant income	399,028	-	-	399,028	620,385
Rental income, net	4,602,802	-	-	4,602,802	2,013,482
Auxiliary activities	4,446,234	-	-	4,446,234	2,701,283
Investment return designated for operations	-	521,000	-	521,000	522,600
Spend rate allocation	521,000	(521,000)	-	-	-
Net assets released from restrictions	507,900	(507,900)	-	-	-
Total Operating Support and Revenue	<u>31,549,258</u>	<u>(377,964)</u>	<u>-</u>	<u>31,171,294</u>	<u>28,754,922</u>
OPERATING EXPENSES					
Program expenses					
Education	3,075,575	-	-	3,075,575	2,656,551
Exhibits and visitor services	18,248,513	-	-	18,248,513	17,012,603
Intrepid Fallen Heroes and Relief Funds	160,963	-	-	160,963	129,947
Other program costs	1,980,628	-	-	1,980,628	1,581,995
Total Program Expenses	<u>23,465,679</u>	<u>-</u>	<u>-</u>	<u>23,465,679</u>	<u>21,381,096</u>
Supporting expenses					
Management and general	2,799,441	-	-	2,799,441	2,584,569
Fundraising	1,839,937	-	-	1,839,937	1,484,499
Total Supporting Services	<u>4,639,378</u>	<u>-</u>	<u>-</u>	<u>4,639,378</u>	<u>4,069,068</u>
Total Operating Expenses	<u>28,105,057</u>	<u>-</u>	<u>-</u>	<u>28,105,057</u>	<u>25,450,164</u>
Excess of Operating Support and Revenue Over Operating Expenses	<u>3,444,201</u>	<u>(377,964)</u>	<u>-</u>	<u>3,066,237</u>	<u>3,304,758</u>
NONOPERATING REVENUE AND OTHER SUPPORT					
Depreciation and amortization	(4,908,047)	-	-	(4,908,047)	(5,226,678)
Contributions and capital grants	2,202,684	16,147	202,207	2,421,038	203,336
Insurance proceeds from casualty loss - Superstorm Sandy, net of impaired assets of \$2,854,631 and other expenses of \$2,117,982 in 2013	-	-	-	-	2,966,725
Loss on disposal of assets	(369,077)	-	-	(369,077)	(196,410)
Unrealized loss on swap agreement	-	-	-	-	(168,740)
Investment return in excess of spend rate	289	2,100,514	-	2,100,803	1,190,527
Other nonoperating revenue	-	-	-	-	83,877
Net assets released from restrictions	110,417	(110,417)	-	-	-
Total Non Operating Revenue and Other Support	<u>(2,963,734)</u>	<u>2,006,244</u>	<u>202,207</u>	<u>(755,283)</u>	<u>(1,147,363)</u>
Change in Net Assets	<u>480,467</u>	<u>1,628,280</u>	<u>202,207</u>	<u>2,310,954</u>	<u>2,157,395</u>
NET ASSETS					
Beginning of year	<u>45,657,173</u>	<u>3,559,852</u>	<u>21,606,018</u>	<u>70,823,043</u>	<u>68,665,648</u>
End of year	<u>\$ 46,137,640</u>	<u>\$ 5,188,132</u>	<u>\$ 21,808,225</u>	<u>\$ 73,133,997</u>	<u>\$ 70,823,043</u>

See notes to consolidated financial statements

Intrepid Museum Foundation and Subsidiary

Consolidated Statement of Cash Flows For the Year Ended April 30, 2014 (with comparative amounts for the year ended April 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,310,954	\$ 2,157,395
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	4,908,047	5,226,678
Net unrealized (gain) loss on investments	(1,100,062)	539,434
Net realized gain on sale of investments	(1,134,759)	(1,771,060)
Unrealized loss on swap agreement	-	168,740
Insurance proceeds received for impaired assets-Superstorm Sandy	-	(2,854,631)
Loss on disposal of fixed assets	369,079	3,051,041
Amortization of discount on pledges receivable	(218,355)	(222,084)
Change in Operating Assets and Liabilities		
Pledges receivable	705,168	243,672
Grants receivable	186,022	127,034
Insurance claims receivable	441,261	(3,761,331)
Other receivables	(211,594)	(29,360)
Prepaid expenses and other assets	(202,087)	8,877
Accounts payable and accrued liabilities	(661,722)	1,106,719
Deferred revenue	344,596	178,568
Net Cash from Operating Activities	5,736,548	4,169,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in short-term investments	(1,009,366)	(416,360)
Proceeds from sale of investments	18,057,007	19,265,654
Purchases of investments	(17,458,152)	(19,328,175)
Refund of partial exhibit acquisition cost	-	4,602,064
Reimbursement of partial pier acquisition costs	523,306	-
Insurance proceeds received for impaired assets - Superstorm Sandy	-	2,854,631
Acquisition of fixed assets	(4,131,532)	(6,404,009)
Net Cash from Investing Activities	(4,018,737)	573,805
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on notes payable under line of credit	(525,000)	(2,500,000)
Repayments on swap agreement	-	(2,104,000)
Repayments on loan	(132,917)	(75,833)
Debt issuance costs	-	(45,400)
Borrowings to secure capital leases	-	2,338,137
Payments on capital lease obligations	(674,721)	(552,612)
Net Cash from Financing Activities	(1,332,638)	(2,939,708)
Net Change in Cash	385,173	1,803,789
CASH		
Beginning of year	4,072,613	2,268,824
End of year	\$ 4,457,786	\$ 4,072,613
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	\$ 325,168	\$ 425,199

See notes to consolidated financial statements

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

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 the Hudson River Park. The Museum opened to the public on August 3, 1982.

The Museum also provides program support, fundraising 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.

The Museum also provides program support, fundraising and administrative services to the Intrepid Relief Fund.

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Museum and its wholly-owned subsidiary, Intrepid Heliport Corp. ("Heliport"), an inactive subsidiary. All significant intercompany transactions have been eliminated.

Basis of Presentation

The accompanying consolidated 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 year then ended. Actual results could differ from those estimates.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

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 non-operating 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 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 FASB 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 and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

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 are included in fixed assets on the accompanying consolidated statement of financial position. The costs incurred to facilities infrastructure to accommodate the exhibits are also capitalized in fixed assets in the accompanying consolidated 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 consolidated 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) (the "Transfer Agreement") 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 \$1,000.

Depreciation is provided for principally by 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 - 38 years.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

2. Summary of Significant Accounting Policies (continued)

Fixed Assets (continued)

Long-lived assets, such as fixed assets, are reviewed for impairment when events or circumstances indicate that their useful life and/or carrying value may be impaired. 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 are being provided on a straight-line basis over the term of the loan.

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 are recognized when the event takes place or when the ticket holder visits the Museum. 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. These amounts are permanently restricted as an endowment fund.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

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 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 consolidated 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, 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 and changes in net assets 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 year ended April 30, 2014 based on the estimated dollar value of volunteer time amounts to approximately \$216,000 (18,000 hours of time). In accordance with GAAP the value of these services is not reflected in the accompanying consolidated financial statements.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

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 consolidated statement of activities. Rental discounts totaled \$127,900 and \$74,572 for the years ended April 30, 2014 and 2013.

Advertising

Advertising costs are expensed as incurred and amounted to approximately \$1,006,000 and \$908,000, for the years ended April 30, 2014 and 2013.

Advertising barter transactions are recorded based on the fair value of the sponsorship, membership or other such fee exchanged by the Museum. Barter advertising totaled approximately \$35,900 and \$65,700 for the years ended April 30, 2014 and 2013.

Prior Year Summarized Financial Information

The consolidated 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 generally accepted accounting principles. Accordingly, such information should be reviewed in conjunction with the Museum's consolidated financial statements for the year ended April 30, 2013, from which the summarized information was derived.

Functional Allocation of Expenses

The Museum reports its expenses by their functional classification. Program services are the activities that result in services being provided to the public pursuant to the Museum's missions. Supporting activities 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.

Reclassification

Certain information in the accompanying consolidated 2013 information has been reclassified to conform to the 2014 presentation.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

2. Summary of Significant Accounting Policies (continued)

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. The Museum is no longer subject to audits by the applicable taxing jurisdictions for tax years prior to fiscal 2011.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is September 17, 2014.

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 89% of the total pledges receivable as of April 30, 2014.

4. Pledges Receivable

Pledges receivable are due as follows at April 30, 2014:

2015	\$	814,176
2016		740,000
2017		700,000
2018		600,000
2019		600,000
Thereafter		<u>1,352,877</u>
		4,807,053
Less discount for present value		<u>(721,775)</u>
	\$	<u><u>4,085,278</u></u>

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

4. Pledges Receivable *(continued)*

At April 30, 2014 and 2013, a pledge receivable totaling \$3,641,705 and \$4,039,498, net of present value discounts, was due from the estate of a deceased Board Trustee.

Of the total undiscounted pledges receivable amount, \$4,352,877 is pledged as permanently restricted for the endowment fund, \$80,149 temporarily restricted for the Enterprise and \$373,026 is pledged for general operating purposes. The Museum applied a discount rate 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 \$218,354 and \$203,336 for the years ended April 30, 2014 and 2013, and are included in "Contributions and capital grants" nonoperating revenue.

5. Insurance Claims Receivable

During October 2012, as a result of Superstorm Sandy, the Museum sustained damage to its mechanical, electrical and life safety systems, space shuttle pavilion, security buildings and Welcome Center. The Museum's management notified its insurance carriers of this event with the filing of insurance claims. The Museum expects that most of the damage caused by the storm and the costs of repairs and replacements related thereto will be covered substantially by insurance proceeds in combination with other sources of storm recovery funds. In 2014 and 2013, the Museum received some insurance reimbursements and recorded an insurance claims receivable at April 30, 2014 and 2013 of \$3,320,070 and \$3,761,331, respectively, for that portion of its claims still outstanding.

6. Investments

Investments consisted of the following as of April 30:

	2014	
	Cost	Fair Value
Short term investments	\$ 1,680,002	\$ 1,677,257
Common stock	8,129,071	9,600,127
Fixed income	7,901,987	7,924,868
Mutual funds	2,709,829	3,602,787
	\$ 20,420,889	\$ 22,805,039
	2013	
	Cost	Fair Value
Short term investments	\$ 670,674	\$ 670,674
Common stock	6,824,367	7,413,279
Fixed income	8,726,241	8,879,946
Mutual funds	2,654,337	3,195,808
	\$ 18,875,619	\$ 20,159,707

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

6. Investments *(continued)*

Pursuant to an annual budget prepared in accordance with the Museum's investment policy, the Board of Trustees approved a portion of the total investment return to support operations and programs. Such amounts approved for operations were capped at 3% in 2014 and 2013 of the total average value of the investments. The total average value is based on calendar year fair values, which include 2010, 2011 and 2012 for fiscal 2014, and 2009, 2010 and 2011 for fiscal 2013. The amount approved for operations during the year ended April 30, 2014 and 2013 was \$521,000 and \$522,600.

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

	2014	2013
Interest and dividend income	\$ 484,909	\$ 562,959
Realized gain	1,134,759	1,771,060
Unrealized gain (loss)	1,100,062	(539,434)
Investment management fees	(97,927)	(81,458)
Total Return on Investments	2,621,803	1,713,127
Approved by board authorization for Museum operations	(521,000)	(522,600)
Surplus of Investment Return Over Amounts Designated for Operations	\$ 2,100,803	\$ 1,190,527

7. Fair Value Measurements

The following are major categories of assets and liabilities measured at estimated fair value at April 30:

	2014		
	Level 1	Level 2	Total
ASSETS			
Short term investments	\$ 1,677,257	\$ -	\$ 1,677,257
Common stock			
Consumer	2,009,875	-	2,009,875
Energy	749,329	-	749,329
Financials	1,320,736	-	1,320,736
Healthcare	1,377,417	-	1,377,417
Industrials	1,124,655	-	1,124,655
Information technology	2,205,439	-	2,205,439
Materials	444,924	-	444,924
Telecommunication services	242,548	-	242,548
Utilities	125,204	-	125,204
Fixed income			
U.S. Corporate bonds	-	4,528,509	4,528,509
International developed bonds	-	415,468	415,468
U.S. Government-backed securities	2,980,891	-	2,980,891
Mutual funds	3,602,787	-	3,602,787
	\$ 17,861,062	\$ 4,943,977	\$ 22,805,039

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements
April 30, 2014

7. Fair Value Measurements *(continued)*

	2013		
	Level 1	Level 2	Total
ASSETS			
Short term investments	\$ 670,674	\$ -	\$ 670,674
Common stock			
Consumer	1,783,471	-	1,783,471
Energy	797,722	-	797,722
Financials	948,672	-	948,672
Healthcare	916,129	-	916,129
Industrials	979,643	-	979,643
Information technology	1,388,755	-	1,388,755
Materials	434,677	-	434,677
Telecommunication services	164,210	-	164,210
Fixed income			
U.S. Corporate bonds	-	4,963,748	4,963,748
International developed bonds	-	427,428	427,428
U.S. Government-backed securities	1,957,854	-	1,957,854
Assets-backed securities	-	1,530,916	1,530,916
Mutual funds	3,195,808	-	3,195,808
	<u>\$ 13,237,615</u>	<u>\$ 6,922,092</u>	<u>\$ 20,159,707</u>

8. Fixed Assets

Fixed assets consisted of the following as of April 30:

	2014	2013
Ship and submarine renovations	\$ 53,018,106	\$ 49,881,579
Exhibit and exhibit infrastructure costs	21,602,372	22,046,651
Leasehold improvements	17,292,785	17,668,386
Furniture, fixtures, equipment and computer software	<u>7,491,813</u>	<u>7,095,997</u>
	99,405,076	96,692,613
Less: Accumulated depreciation	<u>(45,211,711)</u>	<u>(40,834,888)</u>
	<u>\$ 54,193,365</u>	<u>\$ 55,857,725</u>

Depreciation expense totaled \$4,903,507 and \$5,084,426 for the years ended April 30, 2014 and 2013.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

9. Capital Lease Obligations

During 2009, the Museum entered into a capital lease agreement for the acquisition of furniture and fixtures. The capital lease commenced on August 1, 2009 and require 48 monthly payments of principal and interest imputed at an annual interest rate of 2.311%. During 2014 this capital lease obligation expired.

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, respectively, and require 36 and 48 monthly payments of principal and interest imputed at an annual interest rate of 3.27% and 2.91%.

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%.

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

2015	\$	729,508
2016		722,133
2017		<u>208,014</u>
		1,659,655
Less: Interest		<u>(61,935)</u>
	\$	<u>1,597,720</u>

10. Debt

Notes Payable under Line of Credit

The Museum has a line of credit for \$8,000,000 which matures on October 31, 2014. 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 0.20% 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, 2014 was \$3,725,000.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

10. Debt (continued)

Loan Payable

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

The Term Loan Agreement contains certain covenants governing reporting requirements and restrictions affecting fixed charge coverage ratios, balances in cash and investments and certain operational covenants. At April 30, 2014, the Museum was in compliance with all covenants.

The Museum also incurred closing costs related to the financing transaction in the amount of \$45,400. At April 30, 2014 and 2013, the unamortized balance of deferred loan costs totaled \$38,212 and \$42,752, respectively.

Total amortization expense (inclusive of bond issuance and loan costs) amounted to \$4,540 and \$182,252 for the years ended April 30, 2014 and 2013, respectively.

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

2015	\$	140,833
2016		150,834
2017		157,916
2018		165,831
2019		175,836
Thereafter		<u>6,080,000</u>
	\$	<u>6,871,250</u>

Total interest expense incurred for the years ending April 30, 2014 and 2013 was \$323,785, and \$430,062, respectively, which included interest expense for the Museum's line of credit, bond payable, loan payable and capital lease obligations.

11. Grant Income

During the years ended April 30, 2014 and 2013, 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 and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

12. Related Party Transactions

During 2013, a member of the board of trustees provides insurance consulting and brokerage services for the Museum totaling \$204,240. During fiscal 2014, this member was no longer a trustee.

13. Commitments

Pier Lease: The Museum is committed under an operating lease with the New York City Department of Business Services ("NYC") for Pier 86. The lease expires on December 31, 2014. Management expects to renew the operating lease with NYC prior to its expiration. New York requires a base rent of \$1 per annum and the Museum is to make and pay for all necessary structural repairs to the pier, including the concrete deck, pier structure and piling ("Pier Work"). In each of the years ended April 30, 2014 and 2013, the Museum recognized a contribution in-kind and the related rent expense of \$447,000, representing the fair value of renting the Pier.

14. Lease and Sponsorships Agreements

Gift Shop: The Museum outsourced the operations of the Museum gift shop and entered into an operating lease agreement with a gift shop operator to lease portions of the ground and second floors of the Welcome Center adjacent to the Intrepid. The lease expires on June 8, 2021. Under the terms of the lease agreement, the Museum is to receive monthly rent payments equal to the greater of fixed annual rent or 12% of the tenant's annual "Net Gross Sales" (as defined in the agreement). The Museum also leases a concession stand to the gift shop operator through June 8, 2021.

Food Services: The Museum entered into a Retail Lease Agreement (the Agreement") with a restaurant provider on April 30, 2009. The restaurant provider leases 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 expires on May 1, 2019. Under the terms of the Agreement, the Museum is to receive \$200,000 per annum until the fifth anniversary of the commencement date of the Agreement, and \$220,000 per annum thereafter until the expiration date of the Agreement. Additionally, as stipulated in the Agreement the Museum is to receive 7% of the amount by which annual net gross sales exceeds \$2,000,000.

Future minimum annual rent income under these leases is as follows:

For the Year Ending April 30	Gift Shop	Food Services	Total
2015	\$ 281,833	\$ 220,000	\$ 501,833
2016	286,000	220,000	506,000
2017	286,000	220,000	506,000
2018	286,000	220,000	506,000
2019	286,000	220,000	506,000
Thereafter	309,833	-	309,833

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements
April 30, 2014

14. Lease and Sponsorships Agreements *(continued)*

The Museum received rental income related to such agreements for the years ended April 30, 2014 and 2013 of \$306,742 and \$374,842. Rental income in fiscal year 2013 was adversely impacted by the effects of Superstorm Sandy, which caused a temporary closure to the public for almost two months and reconstruction of the Pavilion and Welcome Center.

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 respectively in 2020 and 2018.

A dispute arose between the Museum and one of its concessionaires regarding the calculation of the royalty fee. Both parties chose to resolve the dispute amicably and an agreement was reached in fiscal year 2014 whereby the concessionaire agreed to pay the Museum \$1,048,740 for additional royalty fees owed for the period 2008 to 2013. This amount is reported in auxiliary activities in the accompanying consolidated statement of activities for the year ended April 30, 2014.

Sponsorship Agreements: The Museum entered into certain agreements with corporations that provide for exclusive sponsorship rights for the Museum complex.

Future minimum revenue under these agreements is as follows:

For the Year Ending April 30	
<hr/>	
2015	85,000
2016	51,867

15. Net Assets Restrictions and Releases from Restrictions

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

	2014	2013
Purpose Restrictions		
Educational programs	\$ 99,405	\$ 101,115
Exhibition programs	475,741	945,510
	575,146	1,046,625
Timing Restriction		
Earnings on endowment funds	4,612,986	2,513,227
	\$ 5,188,132	\$ 3,559,852

Permanently restricted net assets at April 30, 2014 and 2013 consisted of endowment funds, income from which is available principally for general operations.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

15. 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>2014</u>	<u>2013</u>
Purpose Restrictions Satisfied		
Educational programs	\$ 126,710	\$ 137,970
Exhibition capital campaign	491,607	210,550
	<u>\$ 618,317</u>	<u>\$ 348,520</u>
Timing Restrictions Met	<u>\$ 521,000</u>	<u>\$ 522,600</u>

16. 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 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 and Subsidiary

Notes to Consolidated Financial Statements

April 30, 2014

16. Endowment Fund *(continued)*

Return Objective and Risk Parameters (continued)

The Museum's investment policy, as approved by the Board of Trustees, 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 assets 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% is available of the average fair market 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, 2014 and 2013 was \$521,000 and \$522,600 (3%), respectively.

The following is a reconciliation of the investment activity in the donor restricted and unrestricted funds for the year ended April 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Balance, beginning of year	\$ 68,100	\$ 2,525,088	\$ 17,566,519	\$ 20,159,707
Contributions	-	-	600,000	600,000
Spend rate appropriation	(68,100)*	(521,000)	-	(589,100)
Investment return, net	-	2,634,432	-	2,634,432
Balance, end of year	\$ -	\$ 4,638,520	\$ 18,166,519	\$ 22,805,039

* Represents portion of fiscal 2013 spend rate appropriation utilized in fiscal 2014.

17. 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 has made no contribution to the plan for the years ended April 30, 2014 and 2013.

Intrepid Museum Foundation and Subsidiary

Notes to Consolidated Financial Statements
April 30, 2014

18. 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 consolidated statement of financial position.

19. Litigation

From time to time the Museum has been served with complaints alleging personal injuries which were sustained by visitors to the Museum. In management's opinion, the ultimate liability for the personal injury actions will not be in excess of the Museum's insurance coverage. Accordingly, the Museum's cost will be limited to its insurance deductible for each occurrence.

* * * * *

**Intrepid Museum Foundation
and Subsidiary**

Supplementary Financial Information

Intrepid Museum Foundation and Subsidiary

Schedule of Functional Expenses Year Ended April 30, 2014 (with summarized totals for the year ended April 30, 2013)

	Program Services				Total	Management and General	Fundraising	2014 Total	2013 Total
	Education	Exhibits and Visitors Services	Intrepid Fallen Heroes and Relief Funds	Other Program Costs					
Salaries and wages	\$ 1,604,582	\$ 8,543,726	\$ 97,288	\$ 776,889	\$ 11,022,485	\$ 1,462,129	\$ 908,937	\$ 13,393,551	\$ 11,949,134
Payroll taxes and other employment expenses	346,288	2,194,025	18,127	93,104	2,651,544	290,885	146,309	3,088,738	2,827,642
Rent	66,022	301,949	-	-	367,971	77,062	1,967	447,000	447,001
Repairs and maintenance	9,274	1,164,080	6,813	8,868	1,189,035	3,472	2,303	1,194,810	970,323
Utilities and telephone	23,485	1,439,699	19,380	465	1,483,029	30,664	14,985	1,528,678	1,125,681
Property and casualty Insurance	102,261	466,504	6,096	13,326	588,187	272,618	4,661	865,466	710,351
Contract services and equipment rentals	14,099	206,718	3,792	3,199	227,808	12,889	5,427	246,124	260,236
Office expense and supplies	50,876	239,550	7,315	1,744	299,485	96,150	29,182	424,817	433,572
Event and program expenses	161,615	560,177	-	613,499	1,335,291	25,682	444,236	1,805,209	1,705,408
Advertising and marketing expenses	235,280	1,300,462	463	210,948	1,747,153	4,510	118,875	1,870,538	2,025,169
Professional and consulting fees	237,691	1,080,121	229	63,256	1,381,297	433,033	82,820	1,897,150	1,484,254
Interest expense	39,547	236,899	982	-	277,428	45,178	1,179	323,785	430,062
Other operating expenses	184,555	514,603	478	195,330	894,966	45,169	79,056	1,019,191	1,081,331
Total Before Depreciation and Amortization	3,075,575	18,248,513	160,963	1,980,628	23,465,679	2,799,441	1,839,937	28,105,057	\$ 25,450,164
Depreciation and amortization	392,346	3,965,033	15,704	-	4,373,083	497,796	37,168	4,908,047	5,226,678
Total Expenses	<u>\$ 3,467,921</u>	<u>\$ 22,213,546</u>	<u>\$ 176,667</u>	<u>\$ 1,980,628</u>	<u>\$ 27,838,762</u>	<u>\$ 3,297,237</u>	<u>\$ 1,877,105</u>	<u>\$ 33,013,104</u>	<u>\$ 30,676,842</u>
Total Expenses - 2013	<u>\$ 3,053,941</u>	<u>\$ 21,154,405</u>	<u>\$ 146,536</u>	<u>\$ 1,581,995</u>	<u>\$ 25,936,877</u>	<u>\$ 3,226,154</u>	<u>\$ 1,513,811</u>	<u>\$ -</u>	<u>\$ 30,676,842</u>

See independent auditors' report

Intrepid Museum Foundation and Subsidiary

OMB Circular A-133
Schedules and Reports

April 30, 2014

Intrepid Museum Foundation and Subsidiary

Schedule of Expenditures of Federal Awards Year Ended April 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Homeland Security:</u>			
Pass-through New York State Office of Homeland Security:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-NY-4085-PW-03043	\$ 202,444
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-NY-4085-PW-03215	278,957
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-NY-4085-PW-01972	544,950
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-NY-4085-PW-03044	1,350
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-NY-4085-PW-03234	<u>1,738,375</u>
Total U.S. Department of Homeland Security			<u>2,766,076</u> ⁽¹⁾
<u>National Endowment for the Humanities:</u>			
Promotion of the Humanities_Division of Preservation and Access	45.149		5,543
Promotion of the Humanities_Public Programs	45.164		<u>6,600</u>
Total National Endowment for the Humanities			<u>12,143</u>
<u>National Endowment for the Arts:</u>			
Promotion of the Arts_Grants to Organizations and Individuals	45.024		<u>8,500</u>
<u>Institute of Museum and Library Services:</u>			
Museums for America	45.301		<u>28,673</u>
Total Expenditures of Federal Awards			<u>\$ 2,815,392</u>

⁽¹⁾ Federal
Expenditures

Year ended April 30, 2013
Year ended April 30, 2014

\$ 2,019,249	
<u>746,827</u>	
<u>\$ 2,766,076</u>	(See note 4 attached)

See independent auditors' report and notes to schedule of expenditures of federal awards

Intrepid Museum Foundation and Subsidiary

Notes to Schedule of Expenditures of Federal Awards
Year Ended April 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Intrepid Museum Foundation and Subsidiary (the "Museum") under programs of the federal government for the year ended April 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Museum, it is not intended to and does not represent the financial position, changes in net assets or cash flows of the Museum.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Subrecipients

For the year ended April 30, 2014, the Museum did not provide any federal funds to subrecipients.

4. Other Matter

In accordance with the 2014 *OMB Circular A-133 Compliance Supplement*, eligible expenditures under CFDA 97.036 incurred in the Museum's 2013 fiscal year and approved by FEMA in fiscal 2014, should be included on the Museum's 2014 Schedule. Accordingly, total U.S. Department of Homeland Security Federal expenditures for the year ended April 30, 2014 include \$2,019,249 of eligible expenditures incurred in the fiscal year ended April 30, 2013.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

Independent Auditors' Report

**Board of Trustees
Intrepid Museum Foundation and Subsidiary**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Intrepid Museum Foundation and Subsidiary (the "Museum"), which comprise the consolidated statement of financial position as of April 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Museum's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

September 17, 2014

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

Independent Auditors' Report

**Board of Trustees
Intrepid Museum Foundation and Subsidiary**

Report on Compliance for Each Major Federal Program

We have audited Intrepid Museum Foundation and Subsidiary's, (the "Museum") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Museum's major federal programs for the year ended April 30, 2014. The Museum's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Museum's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Museum's compliance.

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

Opinion on Each Major Federal Program

In our opinion, Intrepid Museum Foundation and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2014.

Report on Internal Control Over Compliance

Management of the Museum is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Museum's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the Museum as of and for the year ended April 30, 2014, and have issued our report thereon dated September 17, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. As explained in Note 4 of the notes to the schedule of expenditures of federal awards, certain expenditures of federal awards were incurred during the year ended April 30, 2013, but in accordance with the *OMB Circular A-133 Compliance Supplement*, are required to be reported on the schedule of expenditures of federal awards for the year ended April 30, 2014. We have previously audited the consolidated financial statements of the Museum as of and for the year ended April 30, 2013 and have issued our report thereon dated September 17, 2013, which contained an unmodified opinion on those audited consolidated financial statements. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects, in relation to the consolidated financial statements for 2014 and 2013 as a whole.

O'Connor Davies, LLP

January 26, 2015

Intrepid Museum Foundation and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended April 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified? _____ yes X none reported
Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified? _____ yes X none reported
Type of auditors' report issued on compliance
for major federal programs: Unmodified
Any audit findings disclosed that are required
to be reported in accordance with Section .510(a)
of OMB Circular A-133? _____ yes X no

Identification of major federal programs:

CFDA Number
97.036

Name of Federal Program or Cluster
Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000
Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended April 30, 2014.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.