

Intrepid Museum Foundation

Financial Statements

April 30, 2016

Independent Auditors' Report

Board of Trustees Intrepid Museum Foundation

We have audited the accompanying financial statements of Intrepid Museum Foundation (the "Museum"), which comprise the statement of financial position as of April 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intrepid Museum Foundation as of April 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's April 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

September 15, 2016

Intrepid Museum Foundation

Statement of Financial Position
April 30, 2016
(with comparative amounts at April 30, 2015)

	2016	2015
ASSETS		
Cash	\$ 9,400,134	\$ 2,221,908
Pledges receivable, net	2,977,531	3,544,836
Grants receivable	227,230	3,542,055
Other receivables	1,162,337	744,630
Prepaid expenses and other assets	286,847	108,621
Investments	23,990,233	24,381,065
Fixed assets, net	58,985,115	58,552,966
Deferred loan costs, net	29,132	33,672
	\$ 97,058,559	\$ 93,129,753
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 3,969,263	\$ 5,729,462
Deferred revenue	2,103,178	1,285,222
Capital lease obligations	206,742	909,778
Due to federal agency	5,507,112	-
Notes payable under line of credit	6,225,000	3,725,000
Loan payable	6,592,500	6,730,417
Total Liabilities	24,603,795	18,379,879
Net Assets		
Unrestricted	45,342,822	46,683,164
Temporarily restricted	4,962,782	6,077,201
Permanently restricted	22,149,160	21,989,509
Total Net Assets	72,454,764	74,749,874
	\$ 97,058,559	\$ 93,129,753

See notes to financial statements

Intrepid Museum Foundation

Statement of Activities For the Year Ended April 30, 2016 (with summarized totals for the year ended April 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING SUPPORT AND REVENUE					
Admissions and membership	\$ 18,160,989	\$ -	\$ -	\$ 18,160,989	\$ 17,834,803
Contributions (inclusive of contributions in-kind of \$1,299,232 and \$1,119,278)	2,363,818	315,590	-	2,679,408	2,515,733
Sponsorship income	292,372	-	-	292,372	156,000
Special event revenue, (net of costs with direct benefit to donors of \$133,750 and \$121,575)	949,450	-	-	949,450	1,277,826
Grant income	833,778	-	-	833,778	380,483
Rental income, net	2,794,861	-	-	2,794,861	1,966,651
Auxiliary activities	3,501,004	-	-	3,501,004	3,442,721
Investment return designated for operations	-	631,000	-	631,000	570,000
Spend rate allocation	631,000	(631,000)	-	-	-
Net assets released from restrictions	<u>343,923</u>	<u>(343,923)</u>	-	-	-
Total Operating Support and Revenue	<u>29,871,195</u>	<u>(28,333)</u>	-	<u>29,842,862</u>	<u>28,144,217</u>
OPERATING EXPENSES					
Program Expenses					
Education	4,640,800	-	-	4,640,800	3,434,015
Exhibits and museum services	16,780,798	-	-	16,780,798	17,849,672
Intrepid Fallen Heroes and Relief Funds	129,424	-	-	129,424	162,235
Other program costs	<u>1,584,150</u>	-	-	<u>1,584,150</u>	<u>1,296,733</u>
Total Program Expenses	<u>23,135,172</u>	-	-	<u>23,135,172</u>	<u>22,742,655</u>
Supporting Expenses					
Management and general	3,219,635	-	-	3,219,635	3,071,299
Fundraising	<u>1,773,835</u>	-	-	<u>1,773,835</u>	<u>1,847,294</u>
Total Supporting Expenses	<u>4,993,470</u>	-	-	<u>4,993,470</u>	<u>4,918,593</u>
Total Operating Expenses	<u>28,128,642</u>	-	-	<u>28,128,642</u>	<u>27,661,248</u>
Excess (Deficiency) of Operating Support and Revenue Over Operating Expenses	<u>1,742,553</u>	<u>(28,333)</u>	-	<u>1,714,220</u>	<u>482,969</u>
NONOPERATING ACTIVITIES					
Depreciation and amortization	(5,022,285)	-	-	(5,022,285)	(4,680,533)
Contributions and capital grants	4,363,078	3,305	159,651	4,526,034	6,052,448
Insurance proceeds from casualty loss	-	-	-	-	1,337,870
Contract settlements, net	(2,492,609)	-	-	(2,492,609)	(2,581,959)
(Loss) gain on sale of asset	(7,267)	-	-	(7,267)	3,600
(Deficiency) surplus of investment return in excess of spend rate	1,188	(1,014,391)	-	(1,013,203)	1,001,482
Net assets released from restrictions	<u>75,000</u>	<u>(75,000)</u>	-	-	-
Total Nonoperating Activities	<u>(3,082,895)</u>	<u>(1,086,086)</u>	<u>159,651</u>	<u>(4,009,330)</u>	<u>1,132,908</u>
Change in Net Assets	(1,340,342)	(1,114,419)	159,651	(2,295,110)	1,615,877
NET ASSETS					
Beginning of year	<u>46,683,164</u>	<u>6,077,201</u>	<u>21,989,509</u>	<u>74,749,874</u>	<u>73,133,997</u>
End of year	<u>\$ 45,342,822</u>	<u>\$ 4,962,782</u>	<u>\$ 22,149,160</u>	<u>\$ 72,454,764</u>	<u>\$ 74,749,874</u>

See notes to financial statements

Intrepid Museum Foundation

Statement of Cash Flows For the Year Ended April 30, 2016 (with comparative amounts for the year ended April 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,295,110)	\$ 1,615,877
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	5,022,285	4,680,533
Net unrealized loss (gain) on investments	1,084,055	(600,765)
Net realized gain on sale of investments	(469,906)	(507,265)
Loss (gain) on sale of assets	7,267	(3,600)
Amortization of discount on pledges receivable	(162,956)	(188,740)
Change in Operating Assets and Liabilities		
Pledges receivable	730,261	729,182
Grants receivable	3,314,825	(3,470,442)
Insurance claims receivable	-	3,320,070
Other receivables	(417,707)	198,996
Prepaid expenses and other assets	(178,226)	168,383
Accounts payable and accrued liabilities	(1,760,200)	2,487,716
Due to federal agency	5,507,112	-
Deferred revenue	817,956	(337,058)
Net Cash from Operating Activities	11,199,656	8,092,887
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in short-term investments	178,827	158,843
Proceeds from sale of investments	11,180,284	12,777,504
Purchases of investments	(11,582,428)	(13,404,343)
Acquisition of fixed assets, net of disposals	(5,457,160)	(9,031,994)
Net Cash from Investing Activities	(5,680,477)	(9,499,990)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit borrowing	2,500,000	-
Repayments on loan	(137,917)	(140,833)
Payments on capital lease obligations	(703,036)	(687,942)
Net Cash from Financing Activities	1,659,047	(828,775)
Net Change in Cash	7,178,226	(2,235,878)
CASH		
Beginning of year	2,221,908	4,457,786
End of year	\$ 9,400,134	\$ 2,221,908
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	\$ 287,064	\$ 296,689

See notes to financial statements

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

1. Organization and Tax Status

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

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

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

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

Measure of Operations

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

Pledges Receivable

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

Fair Value Measurements

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

Investments Valuation and Income Recognition

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

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

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 \$1,000, with depreciable lives greater than one year. Effective May 1, 2016, the Museum increased the threshold for capital expenditures from \$1,000 to \$5,000.

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

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

2. Summary of Significant Accounting Policies (continued)

Fixed Assets (continued)

Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value may be impaired. There was no impairment recognized in the years ended April 30, 2016 and 2015. Major renewals and betterments are capitalized and depreciated over the remaining useful life of the asset. All other maintenance and repairs are recorded as operating expenses.

Amortization

Amortization of deferred loan costs is being provided on a straight-line basis (which approximates the interest method) over the term of the loan.

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. These amounts are permanently restricted as an endowment fund.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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

In-kind Contributions

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

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

The Museum also receives donated services that do not require specific expertise, but which are nonetheless central to the Museum's operations. The estimated value of these services for the years ended April 30, 2016 and 2015 are based on the estimated dollar value of volunteer time and amounted to approximately \$198,000 and \$214,000 (16,500 and 18,000 hours of time) in each of the years, respectively. In accordance with U.S. GAAP the value of these services is not reflected in the accompanying financial statements.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

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

Rental Income

Rental income from rental of Museum space for special events is recorded net of allowable discounts in the statement of activities. Rental discounts totaled \$75,000 and \$104,500, for the years ended April 30, 2015 and 2014.

Advertising

Advertising costs are expensed as incurred and amounted to approximately \$1,091,530 and \$982,000, for the years ended April 30, 2016 and 2015.

Prior Year Summarized Financial Information

The statement of activities presents prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended April 30, 2015, from which the summarized information was derived.

Functional Allocation of Expenses

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

Accounting for Uncertainty in Income Taxes

The Museum recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Museum had no uncertain tax positions that would require financial statement recognition or disclosure. The Museum is no longer subject to audits by the applicable taxing jurisdictions for tax years prior to fiscal 2013.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is September 15, 2016.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

3. Concentration of Credit Risk

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

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

A concentration of credit risk exists with respect to pledges receivable since amounts receivable from one source represented 94% and 91% of the total pledges receivable as of April 30, 2016 and 2015.

4. Pledges Receivable

Pledges receivable are due as follows at April 30, 2016:

2017	\$	794,890
2018		600,000
2019		600,000
2020		600,000
2021		600,000
Thereafter		152,877
		<u>3,347,767</u>
Less discount for present value		<u>(370,236)</u>
	\$	<u>2,977,531</u>

At April 30, 2016 and 2015, a pledge receivable totaling \$2,782,641 and \$3,222,990, net of present value discounts, was due from the estate of a deceased Board Trustee.

Of the total undiscounted pledges receivable amount, \$3,152,877 is pledged as permanently restricted for the endowment fund, \$135,000 temporarily restricted for the Enterprise and education programs and \$59,890 is pledged for general operating purposes. The Museum applied discount rates at the time of receipt of pledges ranging from 3.2% to 5.2%, in determining the present value of the long term portion of the endowment pledge and temporarily restricted pledge receivable. Amortization of the discounts on pledges receivable amounted to \$162,956 and \$188,740 for the years ended April 30, 2016 and 2015 and is included in "Contributions and capital grants" non-operating revenue. Management deems pledges receivable as fully collectible and an allowance to be unnecessary at April 30, 2016 and 2015.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

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. At April 30, 2014, the Museum recorded an insurance claim receivable totaling of \$3,320,007, for that portion of its claims then outstanding. In October 2014, the Museum settled the claim with the insurance company for the amount then outstanding plus other eligible costs incurred to the settlement date. As a result, during the fiscal year ended April 30, 2015 the Museum recognized \$1,337,870 of additional insurance proceeds which are reported as "Insurance proceeds from casualty loss" in the accompanying statement of activities. There were no proceeds from insurance claims for the year ended April 30, 2016.

6. Investments

Investments consisted of the following as of April 30:

	2016	
	Cost	Fair Value
Short term investments	\$ 1,342,373	\$ 1,342,373
Common stock	9,531,915	10,970,792
Fixed income	7,955,251	7,893,279
Mutual funds	3,259,830	3,783,789
	<u>\$ 22,089,639</u>	<u>\$ 23,990,233</u>

	2015	
	Cost	Fair Value
Short term investments	\$ 1,521,199	\$ 1,521,199
Common stock	8,536,896	10,633,074
Fixed income	8,228,226	8,159,724
Mutual funds	3,109,829	4,067,068
	<u>\$ 21,396,150</u>	<u>\$ 24,381,065</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 2016 and 2015. The total average value is based on the prior three calendar year fair values, which include 2012, 2013 and 2014 for fiscal 2016, and 2011, 2012 and 2013 for fiscal 2015. The amount approved for operations during the years ended April 30, 2016 and 2015 was \$631,000 and \$570,000.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

6. Investments (continued)

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

	2016	2015
Interest and dividend income	\$ 348,538	\$ 580,749
Net realized gains	469,906	507,265
Net unrealized (losses) gains	(1,084,055)	600,765
Investment management fees	(116,592)	(117,297)
Total Return on Investments	(382,203)	1,571,482
Approved by board authorization for Museum operations	(631,000)	(570,000)
(Deficiency) Surplus of Investment Return Over Amounts Designated for Operations	\$ (1,013,203)	\$ 1,001,482

7. Fair Value Measurements

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

	2016		
	Level 1	Level 2	Total
Common Stock			
Consumer	\$ 2,490,696	\$ -	\$ 2,490,696
Energy	612,668	-	612,668
Financials	1,136,650	-	1,136,650
Healthcare	2,186,952	-	2,186,952
Industrials	1,286,421	-	1,286,421
Information technology	2,161,579	-	2,161,579
Materials	575,132	-	575,132
Telecommunication services	520,425	-	520,425
Fixed Income			
U.S. corporate bonds	-	3,769,711	3,769,711
International developed bonds	-	1,025,254	1,025,254
U.S. Government-backed securities	3,098,584	-	3,098,584
Mutual funds	3,783,788	-	3,783,788
Total Investments at Fair Value	\$ 17,852,895	\$ 4,794,965	22,647,860
Temporary cash investments at cost			1,342,373
Total Investments			\$ 23,990,233

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

7. Fair Value Measurements *(continued)*

	2015		
	Level 1	Level 2	Total
Common Stock			
Consumer	\$ 2,676,972	\$ -	\$ 2,676,972
Energy	459,286	-	459,286
Financials	1,395,767	-	1,395,767
Healthcare	1,801,861	-	1,801,861
Industrials	1,432,707	-	1,432,707
Information technology	2,323,461	-	2,323,461
Materials	502,156	-	502,156
Telecommunication services	40,864	-	40,864
Fixed Income			
U.S. corporate bonds	-	4,052,509	4,052,509
International developed bonds	-	1,022,939	1,022,939
U.S. Government-backed securities	3,084,276	-	3,084,276
Mutual funds	4,067,068	-	4,067,068
Total Investments at Fair Value	\$ 17,784,418	\$ 5,075,448	22,859,866
Temporary cash investments at cost			1,521,199
Total Investments			\$ 24,381,065

8. Fixed Assets

Fixed assets consisted of the following as of April 30:

	2016	2015
Ship and submarine renovations	\$ 60,891,932	\$ 58,232,414
Exhibit and exhibit infrastructure costs	22,162,118	21,849,626
Leasehold improvements	21,805,670	20,090,354
Furniture, fixtures, equipment and computer software	8,728,263	8,213,753
	113,587,983	108,386,147
Less: Accumulated depreciation	(54,602,868)	(49,833,181)
	\$ 58,985,115	\$ 58,552,966

Depreciation expense totaled \$5,017,745 and \$4,675,993 for the years ended April 30, 2016 and 2015.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

9. Capital Lease Obligations

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

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

Future minimum lease payments for the year ending April 30, 2017 are \$208,014, less \$1,271 of interest, resulting in a capital lease obligation of \$206,742.

10. Due to Federal Agency

During September 2015, the Museum received capital grant proceeds from a federal agency that exceeded the requested reimbursement in the amount of \$5,507,112. In accordance with the agency instructions, the Museum is required to reimburse the funds to the federal agency upon final closeout of the capital project. At April 30, 2016, the Museum has included the funds received in an interest bearing cash account and also recognized a related liability due to the federal agency in the accompanying statement of financial position of \$5,507,112.

11. Debt

Notes Payable under Line of Credit

The Museum maintains a line of credit in the amount of \$8,000,000 maturing on October 31, 2017. At the election of the Museum at the time an advance is made by the lender, interest will be at either a fluctuating rate per annum equal to the prime rate or a fixed rate equal to 0.65% per annum in excess of LIBOR. The line provides for monthly payments of interest only during the term of the borrowings for loans made under the fluctuating prime rate, and on the last day of the interest period for fixed rate LIBOR loans. Additionally, the Museum pays a facility fee to the bank in an amount equal to 0.15% on the average daily unused amount of the line during such period. Under the terms of this line of credit agreement, the Museum is required to maintain at all times a minimum of \$10,000,000 in cash and investments, as defined in the agreement. The balance outstanding under the line of credit at April 30, 2016 and 2015 was \$6,225,000 and \$3,725,000.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

11. 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 payment of \$6,020,000 due on September 30, 2019. The Loan requires 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 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, all of which have been met by the Museum.

The Museum also incurred closing costs related to the financing transaction in the amount of \$45,400. At April 30, 2016 and 2015, the unamortized balance of deferred loan costs totaled \$29,132 and \$33,672.

Total amortization expense (inclusive of bond issuance and loan costs) amounted to \$4,540 for each of the years ended April 30, 2016 and 2015.

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

2017	\$	157,917
2018		165,833
2019		188,750
2020		<u>6,080,000</u>
	\$	<u>6,592,500</u>

Total interest expense incurred for the years ended April 30, 2016 and 2015 was \$293,453 and \$292,961, which included interest expense for the Museum's line of credit, loan payable and capital lease obligations.

12. Grant Income

During the years ended April 30, 2016 and 2015, 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
April 30, 2016

13. Commitment

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

HRPT granted an extension of the lease at the same terms of the expired lease and the parties continue to negotiate renewal terms of the lease. Management anticipates the terms of the lease renewal to be substantially the same as the expired lease: a base rent of \$1 per annum and the Museum is responsible for all necessary maintenance and repairs to the pier, including the concrete deck, pier structure and piling ("Pier Work"). During the years ended April 30, 2016 and 2015, the Museum recognized a contribution in-kind and the related rent expense of \$462,000 and \$447,000, representing the fair value of renting Pier 86.

14. Lease and Sponsorship 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 USS Intrepid that was to expire on June 8, 2021. This lease was terminated on December 15, 2014 by mutual consent that resulted in a settlement expense of \$2,581,959, which is reported as a contract settlement in the accompanying fiscal 2015 statement of activities.

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

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

14. Lease and Sponsorship Agreements *(continued)*

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

2017	\$	750,000
2018		750,000
2019		750,000
2020		750,000
2021		750,000
Thereafter		812,500
	<u>\$</u>	<u>4,562,500</u>

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

Effective July 28, 2015 the Museum entered into a license agreement and subsequent extensions expiring December 31, 2016 with a third party operator to be the exclusive provider of food and beverages while the parties negotiate a long-term lease agreement. The license fee to be paid to the Museum is 17.5% of net gross sales. Management expects a lease to be executed before the expiration of the license agreement. The Museum received rental income related to such agreements for the years ended April 30, 2016 and 2015 of \$466,382 and \$256,554.

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 \$292,000 and \$156,000 for years ended April 30, 2016 and 2015.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

15. Net Assets Restrictions and Releases from Restrictions

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

	<u>2016</u>	<u>2015</u>
Purpose Restrictions		
Educational programs	\$ 152,330	\$ 113,607
Exhibition programs	186,738	349,048
	<u>339,068</u>	<u>462,655</u>
Timing Restriction		
Earnings on endowment funds	4,623,714	5,614,546
	<u>\$ 4,962,782</u>	<u>\$ 6,077,201</u>

Permanently restricted net assets at April 30, 2016 and 2015 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 years ended April 30:

	<u>2016</u>	<u>2015</u>
Purpose Restrictions Satisfied		
Educational programs	\$ 227,023	\$ 232,391
Exhibition capital campaign	191,900	171,000
	<u>\$ 418,923</u>	<u>\$ 403,391</u>
Timing Restrictions Met	<u>\$ 631,000</u>	<u>\$ 570,000</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 (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.

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

16. Endowment Fund (continued)

Interpretation of Relevant Law (continued)

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 6) is available for operations. The amount approved for operations during the years ended April 30, 2016 and 2015 was \$631,000 and \$570,000 (3%).

Intrepid Museum Foundation

Notes to Financial Statements
April 30, 2016

16. 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 years ended April 30, 2016 and 2015:

	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Balance, April 30, 2014	\$ 4,638,520	\$ 18,166,519	\$ 22,805,039
Contributions	-	600,000	600,000
Spend rate appropriation	(570,000)	-	(570,000)
Investment return, net	<u>1,546,026</u>	<u>-</u>	<u>1,546,026</u>
Balance, April 30, 2015	5,614,546	18,766,519	24,381,065
Contributions	-	600,000	600,000
Spend rate appropriation	(631,000)	-	(631,000)
Investment return, net	<u>(359,832)</u>	<u>-</u>	<u>(359,832)</u>
Balance, April 30, 2016	<u>\$ 4,623,714</u>	<u>\$ 19,366,519</u>	<u>\$ 23,990,233</u>

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 made no contribution to the plan for the years ended April 30, 2016 and 2015.

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 statement of financial position.

19. 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 practices complaints filed by current and former employees. In management's opinion, the ultimate liability for these claims will not be in excess of the Museum's insurance coverage. Accordingly, the Museum's cost will be limited to its insurance deductible or retainage for each occurrence.

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Intrepid Museum Foundation

Supplementary Financial Information

Intrepid Museum Foundation

Schedule of Functional Expenses Year Ended April 30, 2016 (with summarized totals for the year ended April 30, 2015)

	Program Services				Total Program Services	Management and General	Fundraising	2016 Total	2015 Total
	Education	Exhibits and Visitor Services	Intrepid Fallen Heroes and Relief Funds	Other Program Costs					
Salaries and wages	\$ 2,826,843	\$ 8,067,521	\$ 77,543	\$ 823,782	\$ 11,795,689	\$ 1,654,988	\$ 948,991	\$ 14,399,668	\$ 14,063,034
Payroll taxes and other employment expenses	662,456	2,037,192	15,007	115,130	2,829,785	333,767	175,120	3,338,672	3,337,603
Rent	68,237	312,081	-	-	380,318	79,649	2,033	462,000	447,000
Repairs and maintenance	16,059	1,109,128	5,043	-	1,130,230	19,218	478	1,149,926	1,110,581
Utilities and telephone	30,036	1,018,647	10,024	2,031	1,060,738	51,613	19,591	1,131,942	1,317,874
Property and casualty Insurance	109,644	452,141	14,740	260	576,785	302,264	1,795	880,844	999,828
Contract services and equipment rentals	7,538	216,877	1,975	-	226,390	17,016	5,331	248,737	257,656
Office expense and supplies	56,881	324,993	3,231	831	385,936	154,356	38,848	579,140	435,929
Event and program expenses	174,021	338,139	-	289,915	802,075	73,801	188,318	1,064,194	1,168,870
Advertising and marketing expenses	237,109	1,204,189	-	165,263	1,606,561	18,837	135,933	1,761,331	1,691,226
Professional and consulting fees	228,613	1,019,650	214	39,776	1,288,253	416,878	161,664	1,866,795	1,615,213
Interest expense	43,154	197,362	1,282	-	241,798	50,370	1,286	293,454	292,961
Other operating expenses	180,209	482,878	365	147,162	810,614	46,878	94,447	951,939	923,473
Total Before Depreciation and Amortization	4,640,800	16,780,798	129,424	1,584,150	23,135,172	3,219,635	1,773,835	28,128,642	27,661,248
Depreciation and amortization	430,240	4,013,316	15,691	-	4,459,247	531,988	31,050	5,022,285	4,680,533
Total Expenses	<u>\$ 5,071,040</u>	<u>\$ 20,794,114</u>	<u>\$ 145,115</u>	<u>\$ 1,584,150</u>	<u>\$ 27,594,419</u>	<u>\$ 3,751,623</u>	<u>\$ 1,804,885</u>	<u>\$ 33,150,927</u>	<u>\$ 32,341,781</u>
Total Expenses - 2015	<u>\$ 3,819,957</u>	<u>\$ 21,622,759</u>	<u>\$ 176,431</u>	<u>\$ 1,296,733</u>	<u>\$ 26,915,880</u>	<u>\$ 3,550,008</u>	<u>\$ 1,875,893</u>	<u>\$ 32,341,781</u>	

See independent auditors' report