

Intrepid Museum Foundation

Financial Statements

December 31, 2018

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 December 31, 2018, and the related statements of activities, functional expenses 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 December 31, 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, Intrepid Museum Foundation adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

April 17, 2019

Intrepid Museum Foundation

Statement of Financial Position December 31, 2018

ASSETS

Cash	\$ 13,099,379
Pledges receivable, net	1,428,745
Grants receivable	357,204
Other receivables	1,983,648
Prepaid expenses and other assets	189,294
Investments	26,709,942
Fixed assets, net	<u>50,876,369</u>

\$ 94,644,581

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued liabilities	\$ 3,355,310
Deferred revenue	3,035,986
Capital lease obligation	514,727
Due to federal agency	4,934,997
Notes payable under line of credit	6,140,000
Loan payable	<u>3,725,000</u>
Total Liabilities	<u>21,706,020</u>

Net Assets

Without donor restrictions	43,773,349
With donor restrictions	
Time restricted for future periods	5,501,667
Purpose restrictions	1,250,025
Endowment funds	<u>22,413,520</u>
Total Net Assets	<u>72,938,561</u>

\$ 94,644,581

See notes to financial statements

Intrepid Museum Foundation

Statement of Activities For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions		Total
		Program Restrictions	Endowment Funds	
OPERATING SUPPORT AND REVENUE				
Admissions and membership	\$ 18,873,039	\$ -	\$ -	\$ 18,873,039
Contributions (inclusive of contributions in-kind of \$1,123,409)	2,193,189	96,000	-	2,289,189
Sponsorship income	448,499	-	-	448,499
Special event revenue, (net of costs with direct benefit to donors of \$187,250)	1,601,301	25,000	-	1,626,301
Grant income	680,225	1,254,500	-	1,934,725
Rental income, net	3,126,387	-	-	3,126,387
Auxiliary activities	4,513,713	-	-	4,513,713
Investment return designated for operations	-	763,734	-	763,734
Spend rate allocation	763,734	(763,734)	-	-
Net assets released from restrictions	478,291	(478,291)	-	-
Total Operating Support and Revenue	<u>32,678,378</u>	<u>897,209</u>	<u>-</u>	<u>33,575,587</u>
OPERATING EXPENSES				
Program Expenses				
Education	5,838,055	-	-	5,838,055
Exhibits and museum services	18,148,322	-	-	18,148,322
Intrepid Fallen Heroes and Relief Funds	98,072	-	-	98,072
Other program costs	2,398,887	-	-	2,398,887
Total Program Expenses	<u>26,483,336</u>	<u>-</u>	<u>-</u>	<u>26,483,336</u>
Supporting Expenses				
Management and general	2,785,479	-	-	2,785,479
Fundraising	1,656,285	-	-	1,656,285
Total Supporting Services	<u>4,441,764</u>	<u>-</u>	<u>-</u>	<u>4,441,764</u>
Total Operating Expenses	<u>30,925,100</u>	<u>-</u>	<u>-</u>	<u>30,925,100</u>
Excess of Operating Support and Revenue Over Operating Expenses	<u>1,753,278</u>	<u>897,209</u>	<u>-</u>	<u>2,650,487</u>
NONOPERATING ACTIVITIES				
Depreciation and amortization	(5,020,948)	-	-	(5,020,948)
Contributions and capital grants	254,752	-	16,559	271,311
Insurance proceeds from casualty loss	134,536	-	-	134,536
Surplus (deficiency) of investment return in excess of spend rate	11,900	(2,836,999)	-	(2,825,099)
Total Nonoperating Activities	<u>(4,619,760)</u>	<u>(2,836,999)</u>	<u>16,559</u>	<u>(7,440,200)</u>
Change in Net Assets	(2,866,482)	(1,939,790)	16,559	(4,789,713)
NET ASSETS				
Beginning of year	<u>46,639,831</u>	<u>8,691,482</u>	<u>22,396,961</u>	<u>77,728,274</u>
End of year	<u>\$ 43,773,349</u>	<u>\$ 6,751,692</u>	<u>\$ 22,413,520</u>	<u>\$ 72,938,561</u>

See notes to financial statements

Intrepid Museum Foundation

Statement of Functional Expenses For the Year Ended December 31, 2018

	Program Services				Total Program Expenses	Management and General	Fundraising	Total
	Education	Exhibits and Museum Services	Intrepid Fallen Heroes and Relief Funds	Other Program Costs				
Salaries, wages and other employment expenses	\$ 4,520,754	\$ 12,206,350	\$ 264	\$ 1,259,317	\$ 17,986,685	\$ 1,818,995	\$ 1,029,307	\$ 20,834,987
Rent	68,237	310,048	2,033	-	380,318	79,649	2,033	462,000
Repairs and maintenance	19,731	551,238	59,361	36,803	667,133	22,738	2,721	692,592
Utilities and telephone	25,749	998,791	-	4,392	1,028,932	43,334	16,926	1,089,192
Property and casualty insurance	124,185	564,194	20,826	-	709,205	144,953	3,699	857,857
Contract services and equipment rentals	12,318	295,154	13	4,812	312,297	18,245	6,011	336,553
Office expense and supplies	74,886	318,830	4,172	16,712	414,600	114,185	40,110	568,895
Event and program expenses	300,731	485,285	-	485,352	1,271,368	24,251	350,572	1,646,191
Advertising and marketing expenses	168,917	853,624	-	362,166	1,384,707	17,881	68,896	1,471,484
Professional and consulting fees	261,741	740,582	2,965	56,470	1,061,758	343,103	98,341	1,503,202
Interest expense	47,661	216,542	4,072	-	268,275	55,631	1,420	325,326
Other operating expenses	213,145	607,684	4,366	172,863	998,058	102,514	36,249	1,136,821
Total Expenses Before Depreciation and Amortization	5,838,055	18,148,322	98,072	2,398,887	26,483,336	2,785,479	1,656,285	30,925,100
Depreciation and amortization	739,049	3,380,011	17,230	-	4,136,290	862,641	22,017	5,020,948
Total Expenses	\$ 6,577,104	\$ 21,528,333	\$ 115,302	\$ 2,398,887	\$ 30,619,626	\$ 3,648,120	\$ 1,678,302	\$ 35,946,048

See notes to financial statements

Intrepid Museum Foundation

Statement of Cash Flows For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (4,789,713)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	5,020,948
Net unrealized gain on investments	4,308,083
Net realized gain on sale of investments	(1,655,093)
Amortization of contract buyout	(203,328)
Amortization of discount on pledges receivable	(16,559)
Change in Operating Assets and Liabilities	
Pledges receivable	510,499
Grants receivable	226,202
Other receivables	374,550
Prepaid expenses and other assets	15,543
Accounts payable and accrued liabilities	303,517
Due to government	147,424
Deferred revenue	(128,755)
Net Cash from Operating Activities	<u>4,113,318</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	19,102,120
Purchases of investments	(19,599,327)
Acquisition of fixed assets	<u>(2,993,857)</u>
Net Cash from Investing Activities	<u>(3,491,064)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayments on loan	(172,500)
Payments on capital lease obligation	<u>(251,065)</u>
Net Cash from Financing Activities	<u>(423,565)</u>
Net Change in Cash	198,689

CASH

Beginning of year	<u>12,900,690</u>
End of year	<u>\$ 13,099,379</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for	
Interest	\$ 311,549

See notes to financial statements

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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 (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 seeks to promote the awareness and understanding of history, science and service through its collections, exhibitions and programming in order to honor our heroes, educate the public and inspire our youth.

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 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).

Change in Accounting Principle

On January 1, 2018, the Museum adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Museum to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires Intrepid Museum Foundation to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard prior year amounts for temporarily restricted and permanently restricted net assets were combined as net assets with donor restrictions.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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

Net Asset Presentation

The financial statements of the Museum report amounts separately by class of net assets based on the presence or absence of donor restrictions with the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum, its programs or supporting activities. These net assets may be used at the discretion of the Museum's management and Board of Trustees (the "Board").

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors that limit their use either through purpose or time restrictions. Some donor restrictions are temporary in nature, which will be met by actions of the Museum or by passage of time. These amounts are restricted primarily for education and public programs, exhibitions and certain aircraft maintenance.

Other donor restrictions are perpetual in nature, whereby the donor has stipulated the Museum maintains the assets in perpetuity, but permits the Museum to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. The principal amounts of these assets are permanently restricted as an endowment fund.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Fiscal Year End Change

The Museum's Board adopted a change in its financial reporting cycle from the April 30 fiscal year end to a calendar year effective May 1, 2017. The financial statements reported herein are for the year beginning January 1, 2018 ending December 31, 2018. Financial statements reported hereafter will be on a calendar year basis.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

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, and investment returns on assets in excess of the investment spend rate.

Pledges, Grants and Other Receivables

Pledges and non-government grants receivables are recorded as contributions at the pledged or grant 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 or grant was received. Amortization of the discount is included in contribution revenue. Government grant receivables are recognized as revenue when the Museum meets the conditions for revenue recognition, mainly it incurs reimbursable program expenditures. Other accounts receivables represent amounts due from exchange transactions when service is rendered.

An estimated allowance for doubtful accounts is provided when necessary based on management's assessment of collectability.

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.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Investments Valuation and Income Recognition

Investments are recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are recorded in the statement of activities in the period in which the securities are sold. 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.

Exhibits, Intrepid and Collections

The Museum capitalizes exhibit costs as they are incurred at their purchase price. 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 for 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"), 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.

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 recorded at their fair value at the time of contribution. The Museum capitalizes expenditures for fixed assets in excess of \$5,000 with useful lives of greater than one year.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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

Fixed Assets (continued)

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.

Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value may be impaired. There was no impairment recognized for the year ended December 31, 2018. Major renewals and betterments are capitalized and depreciated over the remaining useful life of the asset. All other maintenance and repairs are recorded as operating expenses.

Deferred Revenue

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

Contributions

Contributions received and unconditional promises to give are measured at their net realizable values and are reported as an increase in net assets in the period received. The Museum reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for specified future periods.

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.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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

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 typically would 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 year ended December 31, 2018 are based on the estimated dollar value of volunteer time and amounted to approximately \$281,450 (20,848 hours of time). In accordance with U.S. GAAP the value of these services is not reflected in the accompanying financial statements.

Rental Income

Income from rental of Museum space for third party client events is recorded net of allowable discounts in the statement of activities. Rental discounts totaled \$181,250 for the year ended December 31, 2018.

Advertising

Advertising costs are expensed as incurred and amounted to \$976,813 for the year ended December 31, 2018.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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

Functional Allocation of Expenses

The Museum reports its expenses for providing programs and other activities and certain costs for supporting services by their functional classification on a summarized basis in the statement of activities. 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.

Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense Classification</u>	<u>Method of Allocation</u>
Salaries, wages and other employment expenses	Time and effort
Rent	Square footage
Repairs and maintenance	Square footage
Utilities and communications	Square footage
Property and casualty insurance	Square footage
Contract services and equipment rental	Square footage
Office expenses and supplies	Time and effort
Event and program expenses	Time and effort
Advertising and marketing expenses	Time and effort
Professional and consulting expenses	Time and effort
Information technology expenses	Full time equivalent
Interest expense	Time and effort
Other operating expenses	Time and effort
Depreciation and amortization	Square footage

Accounting for Uncertainty in Income Taxes

The Museum recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Museum had no uncertain tax positions that would require financial statement recognition or disclosure. The Museum is no longer subject to examinations by the applicable taxing jurisdictions for tax years prior to fiscal 2015.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is April 17, 2019.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

3. Availability and Liquidity

The following represents the Museum's financial assets as of December 31, 2018:

Total financial assets at year end	
Cash	\$ 13,099,379
Pledges receivable, net	1,428,745
Grants receivable	357,204
Other receivables	1,983,648
Investments	<u>26,709,942</u>
Total Financial Assets	<u>43,578,918</u>
Less amounts not available to be used within one year:	
Cash held for government agency	(4,934,997)
Net assets with donor restrictions	(6,751,692)
Less net assets with donor restrictions expected to be met in less than one year	1,728,876
Net assets with donor restrictions - endowment funds	<u>(22,413,520)</u>
	<u>(32,371,333)</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	 <u>\$ 11,207,585</u>

The Museum's goal is to generally maintain financial assets to meet three months of operating expenses (approximately \$9.0 million). As part of its liquidity plan, excess cash is invested in short-term, highly liquid investments, such as money market accounts. In addition, the Museum has an available line of credit in the amount of \$8,000,000 of which \$4,275,000 remains available at December 31, 2018 to meet cash flow needs. Lastly, the Museum operates with a conservative 3% spending rate allocation, which could be increased with Board approval.

4. Concentration of Credit Risk

Financial instruments that potentially subject the Museum to significant concentrations of credit risk consist principally of cash, investments and receivables. 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 represent 90% of the total pledges receivable as of December 31, 2018.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

5. Pledges Receivable

Pledges receivable are due as follows at December 31, 2018:

2019	\$ 781,745
2020	50,000
2021	50,000
2022	50,000
2023	50,000
Thereafter	<u>550,000</u>
	1,531,745
Less discount for present value	<u>(103,000)</u>
	<u>\$ 1,428,745</u>

At December 31, 2018, a pledge receivable totaling \$1,247,000, net of present value discount, was due from the estate of a deceased Board Trustee and its related entity.

Of the total undiscounted pledges receivable amount, \$1,352,877 is pledged as permanently restricted for the Museum's endowment fund, \$121,744 is temporarily restricted for exhibitions and education programs and \$60,000 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 \$16,559 for the year ended December 31, 2018, and is included in "Contributions and capital grants" in non-operating activities on the statement of activities.

6. Investments

Investments consist of the following as of December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Short term investments	\$ 2,087,151	\$ 2,087,151
Common stock	13,378,250	13,482,395
Fixed income	7,339,572	7,104,576
Mutual funds	<u>4,431,448</u>	<u>4,035,820</u>
	<u>\$27,236,421</u>	<u>\$ 26,709,942</u>

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

6. Investments (continued)

In accordance with the Museum's investment policy, the Board approves a portion of 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 fiscal year 2018. The total average value is based on the prior three calendar year fair values, which include 2015, 2016 and 2017. The amount approved for operations for the year ended December 31, 2018 was \$763,734.

Investment return for the year ended December 31, 2018 consist of the following:

Interest and dividend income	\$ 730,077
Net realized gains	1,655,093
Net unrealized losses	<u>(4,308,083)</u>
Total Return on Investments	(1,922,913)
Investment management direct fees	<u>(138,453)</u>
Total investment return, net	<u>\$ (2,061,365)</u>
Approved by board authorization for museum operations	\$ 763,734
Deficiency of investment return over amounts designated for operations	<u>(2,825,099)</u>
	<u>\$ (2,061,365)</u>

7. Fair Value Measurements

The following are major categories of investments measured at estimated fair value at December 31, 2018:

	Level 1	Level 2	Total
Common Stock			
Consumer	\$ 2,586,733	\$ -	\$ 2,586,733
Energy	444,183	-	444,183
Financials	1,274,706	-	1,274,706
Healthcare	2,984,436	-	2,984,436
Industrials	1,780,362	-	1,780,362
Information technology	2,922,697	-	2,922,697
Materials	253,917	-	253,917
Real estate	60,575	-	60,575
Telecommunication services	1,174,786	-	1,174,786
Fixed Income			
U.S. corporate bonds	-	3,052,103	3,052,103
International developed bonds	-	1,850,784	1,850,784
U.S. Government-backed securities	2,201,689	-	2,201,689
Mutual funds	<u>4,035,820</u>	-	<u>4,035,820</u>
Total Investments at Fair Value	<u>\$ 19,719,904</u>	<u>\$ 4,902,887</u>	24,622,791
Temporary cash investments at cost			2,087,151
Total Investments			<u>\$ 26,709,942</u>

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

8. Fixed Assets

Fixed assets consist of the following as of December 31, 2018:

Ship and submarine renovations	\$ 63,426,584
Exhibit and exhibit infrastructure costs	24,091,206
Leasehold improvements	22,328,737
Furniture, fixtures, equipment and computer software	9,328,675
Work in progress	41,793
	<u>119,216,995</u>
Less: Accumulated depreciation	<u>(68,340,626)</u>
	<u>\$ 50,876,369</u>

Depreciation expense totaled \$5,020,948 for the year ended December 31, 2018.

9. Capital Lease Obligations

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

Future minimum lease payments are as follows for the years ending December 31:

2019	\$ 281,108
2020	<u>281,108</u>
	562,216
Less: Interest	<u>(47,489)</u>
	<u>\$ 514,727</u>

10. Due to Federal Agency

In September 2015, the Museum received a capital grant payment from a federal agency that exceeded the requested amount by approximately \$5,507,000. These funds are held in an interest-bearing account and are increased by interest earned and decreased by grant related expenses. In accordance with agency instructions, the Museum will reimburse the unused funds upon final project closeout. At December 31, 2018, the amount due to the federal agency was \$4,934,997 of which \$147,424 was earned interest.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

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, 2020. At the election of the Museum at the time an advance is made by the lender, interest will be at either a fluctuating rate per annum equal to the prime rate or a fixed rate equal to 0.30% 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 \$8,000,000 in cash and investments, as defined in the agreement.

The balance outstanding under the line of credit at December 31, 2018 was \$3,725,000.

Loan Payable

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

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

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

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

2019	\$ 183,750
2020	197,500
2021	208,750
2022	222,500
2023	233,750
Thereafter	<u>5,093,750</u>
	<u>\$ 6,140,000</u>

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

11. Debt (continued)

Loan Payable (continued)

Total interest expense incurred for the year ended December 31, 2018 was \$325,325, including interest expense for the Museum's line of credit, loan payable and capital lease obligations.

12. Grant Income

During the year ended December 31, 2018, 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.

13. Commitment

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

HRPT granted an extension of the lease at the same terms of the expired lease and the parties continue to negotiate renewal terms of the lease. Management anticipates the terms of the lease renewal to be substantially the same as the expired lease: a base rent of \$1 per annum and the Museum is responsible for all necessary maintenance and repairs to the pier, including the concrete deck, pier structure and piling ("Pier Work"). During the year ended December 31, 2018, the Museum recognized a contribution in-kind and the related rent expense of \$462,000, representing the fair value of leasing Pier 86.

14. Lease and Sponsorship Agreements

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

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

14. Lease and Sponsorship Agreements *(continued)*

Future minimum annual rent income under the lease is as follows for the years ending December 31:

2019	\$	750,000
2020		750,000
2021		750,000
2022		312,500
		<u>2,562,500</u>
	\$	<u>2,562,500</u>

Food Services: Effective January 1, 2017, the Museum executed a lease agreement with a third party operator to be the exclusive provider of daily food and beverages for a term of ten years. Under the terms of the lease agreement, the Museum receives an annual minimum rent payment of \$500,000 based on applicable percentage on "Annual Net Gross Sales" (as defined in the agreement), subject to the Museum meeting certain attendance thresholds. Upon execution of the lease agreement, the tenant was also required to make a "buy-out contribution" payment of \$1,200,000, as defined in the agreement. The payment is included in deferred revenue and is being recognized over the terms of the lease agreement.

Future minimum annual rent income under the lease is as follows for the years ending December 31:

2019	\$	500,000
2020		500,000
2021		500,000
2022		500,000
2023		500,000
Thereafter		1,500,000
		<u>\$ 4,000,000</u>

The Museum received rental income related to such agreements for the year ended December 31, 2018 of \$1,620,496.

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 2019 and 2021.

Sponsorship Agreements: The Museum entered into certain agreements with corporations that provide for exclusive sponsorship rights for the Museum complex in the amount of \$448,499 for the year ended December 31, 2018.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

15. Net Assets With Donor Restrictions and Releases from Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018:

Purpose Restrictions

Educational programs	\$ 690,085
Exhibition programs	534,940
Salute to Freedom Gala 2019	<u>25,000</u>
	1,250,025

Timing Restriction

Accumulated earnings on endowment funds	<u>5,501,667</u>
	<u><u>\$ 6,751,692</u></u>

Net assets with donor restrictions as of December 31, 2018 also include endowment funds, income from which is available principally for general operations (see note 16).

The following amounts were released from net assets with 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 year ended December 31, 2018:

Purpose Restrictions Satisfied

Educational programs	\$ 428,291
Public programs	25,000
Salute to Freedom Gala 2018	<u>25,000</u>
	<u><u>\$ 478,291</u></u>

Timing Restrictions Met	<u><u>\$ 763,734</u></u>
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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.

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

16. Endowment Fund (*continued*)

Interpretation of Relevant Law

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

As a result of this interpretation, the Board classifies as net assets with donor restrictions that are held as endowment (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations of investment returns to the 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 retained in perpetuity is subject to appropriation 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 year ended December 31, 2018 was \$763,734 (3%).

Intrepid Museum Foundation

Notes to Financial Statements
December 31, 2018

16. Endowment Fund (continued)

The following is a reconciliation of the investment activity in the donor restricted funds for the year ended December 31, 2018:

	With Donor Restrictions		Total
	Accumulated Earnings	Perpetual in Nature	
Balance, December 31, 2017	\$ 8,361,868	\$ 20,566,519	\$ 28,928,387
Contributions	-	600,000	600,000
Spend rate appropriation	(763,734)	-	(763,734)
Investment return, net	<u>(2,096,467)</u>	<u>-</u>	<u>(2,096,467)</u>
Balance, December 31, 2018	<u>\$ 5,501,667</u>	<u>\$ 21,166,519</u>	<u>\$ 26,668,186</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 a discretionary contribution to the plan in the amount \$121,547 for the year ended December 31, 2018.

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

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