

**THE AIR FORCE MUSEUM FOUNDATION, INC.**  
**(A Nonprofit Foundation)**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**THE AIR FORCE MUSEUM FOUNDATION, INC.**

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**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**BRADY WARE**  
& SCHOENFELD

## INDEPENDENT AUDITORS' REPORT

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To the Audit Committee  
**The Air Force Museum Foundation, Inc.**

We have audited the accompanying financial statements of **The Air Force Museum Foundation, Inc.** (a nonprofit Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

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## INDEPENDENT AUDITORS' REPORT - CONTINUED

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Air Force Museum Foundation, Inc.** as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules referred to in the table of contents are presented for purposes of additional analysis and are 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 audits 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.

*Brady, Ware & Schoenfeld, Inc.*

Dayton, Ohio  
May 7, 2018

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,593,106	\$ 1,150,689
Investments - at fair value	2,153,128	2,292,261
Interest and dividends receivable	29,938	24,727
Merchandise inventories	259,813	265,036
Current portion of pledges receivable	1,045,355	1,128,500
Prepaid expenses and other assets	<u>154,974</u>	<u>160,154</u>
Total current assets	<u>5,236,314</u>	<u>5,021,367</u>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	242,851	242,851
Furniture and equipment	<u>1,883,347</u>	<u>1,847,965</u>
	2,126,198	2,090,816
Less accumulated depreciation	<u>1,517,742</u>	<u>1,314,673</u>
Total property and equipment	<u>608,456</u>	<u>776,143</u>
<b>OTHER ASSETS</b>		
Annuities receivable	12,788	16,410
Other assets	26,099	39,649
Investments - at fair value	10,361,167	7,943,733
Pledges receivable - long-term	<u>1,899,694</u>	<u>2,815,130</u>
Total other assets	<u>12,299,748</u>	<u>10,814,922</u>
	<u>\$ 18,144,518</u>	<u>\$ 16,612,432</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 113,081	\$ 103,989
Accrued liabilities		
Payroll and sales taxes, and 401(k) contributions	255,750	188,565
Accrued interest	8,525	11,532
Notes payable - current	<u>1,000,000</u>	<u>1,102,700</u>
Total current liabilities	1,377,356	1,406,786
Notes payable - long-term	2,000,000	3,000,000
Interest rate swap liability	5,969	50,596
Deferred revenue	<u>57,145</u>	<u>65,883</u>
Total liabilities	<u>3,440,470</u>	<u>4,523,265</u>
<b>NET ASSETS</b>		
Unrestricted	13,873,103	11,399,472
Temporarily restricted	<u>830,945</u>	<u>689,695</u>
Total net assets	<u>14,704,048</u>	<u>12,089,167</u>
	<u>\$ 18,144,518</u>	<u>\$ 16,612,432</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE</b>			
Merchandise sales	\$ 3,114,673	\$ -	\$ 3,114,673
Building and education fund donations	820,042	197,133	1,017,175
Other gifts and grants	1,097,417	-	1,097,417
Attractions ticket sales	1,147,132	-	1,147,132
Interest and dividends, net	224,275	-	224,275
Membership fees	73,152	-	73,152
Memorial park fund	4,131	1,558	5,689
Cafe net sales	471,845	-	471,845
Mail order fees, concessions, and other	60,460	-	60,460
Realized gains on investments, net	80,430	-	80,430
	<u>7,093,557</u>	<u>198,691</u>	<u>7,292,248</u>
<b>EXPENSES</b>			
Salaries and wages	1,771,633	-	1,771,633
Cost of merchandise sold	1,269,125	-	1,269,125
Service contracts	152,840	-	152,840
Museum program support	272,064	-	272,064
Interest expense, net	77,618	-	77,618
Attractions operations	416,118	-	416,118
Depreciation and amortization	228,691	-	228,691
Payroll taxes	134,524	-	134,524
Professional services	86,866	-	86,866
Bank and card processing fees	99,713	-	99,713
Special events	12,126	-	12,126
Investment management fees	33,812	-	33,812
Printing costs	98,270	-	98,270
Shipping and postage	71,128	-	71,128
Marketing and advertising	112,684	-	112,684
Cafe in-house expenses	32,303	-	32,303
Medical and life insurance benefits	37,941	-	37,941
401(k) contributions	72,864	-	72,864
Supplies	36,752	-	36,752
Insurance	30,587	-	30,587
Other	35,253	-	35,253
Travel	302	-	302
Telephone	11,930	-	11,930
Equipment	18,932	-	18,932
Loss on disposal of property and equipment	263	-	263
	<u>5,114,339</u>	<u>-</u>	<u>5,114,339</u>
<b>REVENUE IN EXCESS OF EXPENSES</b>	1,979,218	198,691	2,177,909
<b>RELEASED FROM DONOR RESTRICTIONS</b>	57,441	(57,441)	-
<b>DONATED TO THE UNITED STATES AIR FORCE</b>	(45,089)	-	(45,089)
<b>UNREALIZED GAINS ON INVESTMENTS, NET</b>	482,061	-	482,061
<b>CHANGE IN NET ASSETS</b>	2,473,631	141,250	2,614,881
<b>NET ASSETS</b>			
Beginning of year	11,399,472	689,695	12,089,167
End of year	<u>\$ 13,873,103</u>	<u>\$ 830,945</u>	<u>\$ 14,704,048</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE</b>			
Merchandise sales	\$ 2,973,166	\$ -	\$ 2,973,166
Building and education fund donations	384,740	100	384,840
Other gifts and grants	1,861,662	4,841	1,866,503
Attractions ticket sales	1,064,099	-	1,064,099
Interest and dividends, net	148,128	-	148,128
Membership fees	470,940	-	470,940
Memorial park fund	-	2,693	2,693
Cafe net sales	323,275	-	323,275
Mail order fees, concessions, and other	71,886	-	71,886
Realized gains on investments, net	16,089	-	16,089
Total revenues	<u>7,313,985</u>	<u>7,634</u>	<u>7,321,619</u>
<b>EXPENSES</b>			
Salaries and wages	1,597,755	-	1,597,755
Cost of merchandise sold	1,243,044	-	1,243,044
Service contracts	159,345	-	159,345
Museum program support	273,021	-	273,021
Interest expense, net	104,619	-	104,619
Attractions operations	381,592	-	381,592
Depreciation and amortization	217,044	-	217,044
Payroll taxes	122,366	-	122,366
Professional services	68,982	-	68,982
Bank and card processing fees	91,002	-	91,002
Special events	33,522	-	33,522
Investment management fees	20,217	-	20,217
Printing costs	78,384	-	78,384
Shipping and postage	70,265	-	70,265
Marketing and advertising	122,389	-	122,389
Cafe in-house expenses	40,244	-	40,244
Medical and life insurance benefits	29,569	-	29,569
401(k) contributions	46,385	-	46,385
Supplies	35,987	-	35,987
Insurance	28,579	-	28,579
Other	37,941	-	37,941
Travel	4,697	-	4,697
Telephone	11,960	-	11,960
Equipment	27,314	-	27,314
Loss on sale of property and equipment	338	-	338
Total expenses	<u>4,846,561</u>	<u>-</u>	<u>4,846,561</u>
<b>REVENUE IN EXCESS OF EXPENSES</b>	2,467,424	7,634	2,475,058
<b>RELEASED FROM DONOR RESTRICTIONS</b>	151,081	(151,081)	-
<b>DONATED TO THE UNITED STATES AIR FORCE</b>	(37,125)	-	(37,125)
<b>UNREALIZED GAINS ON INVESTMENTS, NET</b>	<u>221,541</u>	<u>-</u>	<u>221,541</u>
<b>CHANGE IN NET ASSETS</b>	2,802,921	(143,447)	2,659,474
<b>NET ASSETS</b>			
Beginning of year	<u>8,596,551</u>	<u>833,142</u>	<u>9,429,693</u>
End of year	<u>\$ 11,399,472</u>	<u>\$ 689,695</u>	<u>\$ 12,089,167</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,614,881	\$ 2,659,474
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	228,691	217,044
Change in net present value of pledge receivables	(98,264)	(129,560)
Net gain on investments	(562,491)	(237,630)
Unrealized gain on interest rate swap liability	(44,627)	(46,628)
Loss on disposal and sale of property and equipment	<u>263</u>	<u>338</u>
	<b>2,138,453</b>	<b>2,463,038</b>
Changes in operating assets and liabilities:		
Interest and dividends receivable	(5,211)	(4,460)
Merchandise inventories	5,223	(10,117)
Pledges receivable	1,096,845	832,015
Annuity receivable	3,622	3,483
Prepaid expenses and other assets	5,180	(58,278)
Accounts payable	9,092	11,221
Deferred revenues	(8,738)	(20,029)
Accrued liabilities	<u>64,178</u>	<u>41,443</u>
	<b>3,308,644</b>	<b>3,258,316</b>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>3,308,644</u>	<u>3,258,316</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(3,751,011)	(4,055,602)
Maturities and sales of investments	2,035,202	1,091,560
Purchases of property and equipment	(47,718)	(293,528)
Proceeds from sale of property	<u>-</u>	<u>1,167</u>
	<b>(1,763,527)</b>	<b>(3,256,403)</b>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(1,763,527)</u>	<u>(3,256,403)</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments on notes payable	<u>(1,102,700)</u>	<u>(545,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>442,417</b>	<b>(543,087)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,150,689</u>	<u>1,693,776</u>
End of year	<u>\$ 1,593,106</u>	<u>\$ 1,150,689</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 114,766</u>	<u>\$ 146,951</u>

See notes to financial statements.



# THE AIR FORCE MUSEUM FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The purpose of **The Air Force Museum Foundation, Inc.** (the "Foundation") is to foster and develop the National Museum of the United States Air Force (the "Museum") as a medium of information and education. The Foundation also assists in activities to develop and expand the Museum facilities through the donation of services and miscellaneous supplies. The activities of the Foundation include Attractions, Museum Store, Cafe, Membership, Development, and General. The Foundation follows the accounting procedures as set forth in the American Institute of Certified Public Accountants audit and accounting guide for Non-Profit Foundations.

**Financial Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and equivalents include interest-bearing deposits and short-term daily investments, and are stated at cost which approximates fair value.

**Merchandise Inventories** - Merchandise inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

**Pledge Receivables** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in one or more years are discounted to present value. Conditional promises to give are recorded only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges to gift money or stock will be recorded on the books of the Foundation upon receipt of a pledge agreement or signed letter of intent which specifies the terms of the pledge. The terms and timing of pledge payments are then recorded as receivables as specified in the signed pledge agreement at fair value as of the pledge date.

Gifts and gift pledges in which the donor has specified definite restrictions as to purpose with payment due in future years, will be recorded as temporarily restricted assets and will only be used for the purpose specified.

Each year-end, the outstanding pledges are reviewed to determine if an allowance for doubtful pledges should be recorded. A specific allowance is booked if a pledge is greater than one year past due. As of December 31, 2017 and 2016, there were no pledges requiring an allowance per Foundation policy.

**Property and Equipment** - Property and equipment are stated at cost or fair market value if donated to the Foundation and are depreciated using the straight-line method over the estimated useful life of the asset. Maintenance and repairs are charged to expense at the time expenditures are incurred. Expenditures which significantly extend the lives of assets and major improvements are capitalized.

The Foundation reviews for impairment of long-lived assets in accordance with accounting standards. These standards require companies to determine if changes in circumstances indicate that the carrying amount of its long-lived assets may not be recoverable. If a change in circumstances warrants such an evaluation, undiscounted future cash flows from the use and ultimate disposition of the asset, as well as respective market values, are estimated to determine if an impairment exists. Management believes that there has been no impairment of the carrying value of its long-lived assets at December 31, 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Investments** - Investments are classified as available-for-sale. Investments donated to the Foundation are recorded at fair market value at the date of the gift. Changes in fair values of investments are included in the Statements of Activities and Changes in Net Assets under the caption, Realized gains on investments, net and Unrealized gains on investments, net. Realized gains or losses from the sale of investment securities are determined using the specific identification method.

**Concentrations** - Financial instruments that potentially subject the Foundation to credit risk consist of pledges receivable. For the years 2017 and 2016, approximately 99% and 97% of the undiscounted pledges receivable, or \$3,000,000 and \$4,000,000, represents pledges from one party.

The Foundation's cash and cash equivalents were maintained at a single financial institution and exceeded the federal depository insurance limit of \$250,000 for each of the years 2017 and 2016.

**Fair Value** - Accounting standards establish a single definition of fair value and a framework for measuring fair value in accordance with generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. This standard applies whenever other authoritative literature requires (or permits) certain assets and liabilities to be measured at fair value. Items carried at fair value on a recurring basis consist of investment and the interest rate swap liability. The Foundation also uses fair value concepts to test various long-lived assets for impairment, in the event a triggering event has occurred.

**Deferred Revenues - Memberships** - In 2017 the Foundation made a change to its membership policy in which only one-year memberships are offered. Prior to 2017, the Foundation offered two and three-year memberships. Those multi-year memberships which were acquired prior to 2017 are still being honored. Membership fees relating to the cost associated with two and three-year memberships are deferred and recognized into revenue during the period in which the services are provided.

**Revenue** - Pledges, gifts, grants, and membership fees are recorded at present value as received, pledged, or as they become available. Merchandise sales, cafe sales, and attractions ticket sales are recorded upon receipt.

**Contributions** - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. The Foundation did not receive any permanently restricted contributions for the years 2017 and 2016.

The Foundation recognizes the fair value of contributed goods and services received if such goods and services a) create or enhance non-financial assets, or b) require specialized skills that are provided by individuals possessing those skills, and c) would typically need to be purchased if not contributed. The fair value of donated goods and services totaling \$3,798 and \$42,601, have been included in the Statements of Activities and Changes in Net Assets as part of the appropriate expense category for the years 2017 and 2016.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Tax-Exempt Status** - The Foundation is a tax-exempt Foundation under Section 501(c)(3) of the Internal Revenue Code. However, certain income may be subject to unrelated business income tax. The Foundation had no unrelated business taxable income for the years 2017 and 2016.

**Accounting for Uncertainty in Income Taxes** - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Foundation's tax returns, to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. This statement provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. Based on its review, management does not believe the Foundation has taken any material uncertain tax positions, including any position that would place the Foundation's exempt status in jeopardy, as of December 31, 2017.

**Reclassifications** - Certain prior year amounts have been reclassified to conform with current year presentation.

**Subsequent Events** - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 7, 2018, the date the financial statements were available to be issued.

**NOTE 2 - MERCHANDISE INVENTORIES**

	<u>2017</u>	<u>2016</u>
Gifts	\$ 114,603	\$ 119,935
Books	61,263	55,175
Prints	5,931	7,234
Models	14,690	14,154
Donated items	35,844	44,514
Audio visual	1,882	2,357
Other	<u>25,600</u>	<u>21,667</u>
	<u>\$ 259,813</u>	<u>\$ 265,036</u>

**NOTE 3 - PLEDGES RECEIVABLE**

The Foundation records pledges receivable at present value using a present value rate ranging from 1.5% to 3.5%. Pledges receivable are \$2,945,049 and \$3,943,630 at December 31, 2017 and 2016. The net present value of long-term pledges receivable is determined based upon the 3, 5, or 10 year treasury bill rates in the year the pledge is made.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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**NOTE 3 - PLEDGES RECEIVABLE - continued**

The following table is a schedule of the amounts receivable for the next three years:

<b>Years Ending December 31:</b>	<b>Pledges Receivable</b>
2018	\$ 1,045,355
2019	1,000,000
2020	<u>1,000,000</u>
	3,045,355
Less discount to net present value	<u>100,306</u>
	<u>\$ 2,945,049</u>

**NOTE 4 - INVESTMENTS**

In 2015, the Foundation successfully revamped its investment program and, leveraging a competitive process, changed investment advisors to more effectively align their investment approach and portfolio with the Foundation Strategic Financial Plan. This change was approved by the Board of Trustees. Investments with maturities of less than one year are classified as short-term. The remaining investments are classified as long-term. Investments at December 31, 2017 and 2016 consist of the following:

	<b>2017</b>	<b>2016</b>
Money market securities	<u>\$ 1,411,139</u>	<u>\$ 1,394,067</u>
Common stocks	<u>4,322,486</u>	<u>2,436,744</u>
Mutual funds		
Large Cap U.S. equity fund	208,055	116,992
Alternative investments	615,651	481,008
Fixed income funds	<u>5,956,964</u>	<u>5,807,183</u>
Total mutual funds	<u>6,780,670</u>	<u>6,405,183</u>
Total investments	12,514,295	10,235,994
Less current investments	<u>2,153,128</u>	<u>2,292,261</u>
	<u>\$ 10,361,167</u>	<u>\$ 7,943,733</u>

Investment management fees for the years 2017 and 2016 totaled \$33,812 and \$20,217.

# THE AIR FORCE MUSEUM FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5 - FAIR VALUE

The Foundation is required to use inputs for measuring fair value according to the three level hierarchy established in the accounting standards, using the highest level possible (e.g., Level 1) if such inputs are available, and if not, going to the next lower level.

The three levels for measuring fair value are:

**Level 1** - Fair values are determined by reference to quoted market prices in an active market and other relevant information generated by market transactions.

**Level 2** - Fair value is based on model inputs that are observable either directly or indirectly.

**Level 3** - Fair values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair measurement. These inputs reflect assumptions of management using valuation techniques consistent from year to year.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

*Money market securities, mutual funds, and common stock:* Value of these investments at year-end is based on quoted market prices.

*Interest rate swap liability:* Valued based upon amounts provided by the Foundation's financial institution.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no transfers between classifications or changes in valuation methods to determine leveling for the years 2017 and 2016.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2017 and 2016:

	2017		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Assets			
Money market securities	\$ 1,411,139	\$ 1,411,139	\$ -
Common stocks	4,322,486	4,322,486	-
Mutual funds	<u>6,780,670</u>	<u>6,780,670</u>	-
	<u>\$ 12,514,295</u>	<u>\$ 12,514,295</u>	<u>\$ -</u>
Liabilities			
Interest rate swap liability	\$ <u>5,969</u>	\$ -	\$ <u>5,969</u>

**THE AIR FORCE MUSEUM FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - FAIR VALUE - continued**

	Fair Value	2016	
		Level 1	Level 2
<b>Assets</b>			
Money market securities	\$ 1,394,067	\$ 1,394,067	\$ -
Common stocks	2,436,744	2,436,744	-
Mutual Funds	<u>6,405,183</u>	<u>6,405,183</u>	<u>-</u>
	<u>\$ 10,235,994</u>	<u>\$ 10,235,994</u>	<u>\$ -</u>
<b>Liabilities</b>			
Interest rate swap liability	<u>\$ 50,596</u>	<u>\$ -</u>	<u>\$ 50,596</u>

**NOTE 6 - NOTES PAYABLE**

The Foundation executed two notes with a financial institution in 2013, to fund \$8,800,000 of its gift to the United States Air Force for the construction of the 4th Building of the Museum. This gift was also executed in 2013. The Foundation had previously raised pledge donations for this portion of the gift; however, a portion of these pledged funds are still receivable by the Foundation and recorded as current and long-term receivables. These pledged funds serve as collateral for the notes payable and the Foundation is required to maintain pledged receivables in an amount equal to or in excess of the outstanding indebtedness due and owing on the First Term Note and Second Term Note. The First Term Note bore an interest rate of London InterBank Offered Rate (LIBOR) (1.56% and 0.69% at December 31, 2017 and 2016) plus 1.25%, and had a maturity date of June 2017. The First Term Note was paid off on the scheduled maturity date. The Second Term Note bears an interest rate of LIBOR plus 1.25%, and has a maturity date of May 2020.

Notes payable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
First Financial - Loan 1	\$ -	\$ 102,700
First Financial - Loan 2	<u>3,000,000</u>	<u>4,000,000</u>
	<u>3,000,000</u>	4,102,700
Less current maturities	<u>1,000,000</u>	<u>1,102,700</u>
	<u>\$ 2,000,000</u>	<u>\$ 3,000,000</u>

The schedule for annual principal payments on the notes payable at December 31 for the next three years are as follows:

<u>Years Ending December 31:</u>	<u>Principal Payments</u>
2018	\$ 1,000,000
2019	1,000,000
2020	<u>1,000,000</u>
	<u>\$ 3,000,000</u>

**THE AIR FORCE MUSEUM FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 - NOTES PAYABLE - continued**

During 2013, in connection with the second term note at First Financial Bank, the Foundation entered into an interest rate swap for protection from the effects of fluctuating interest rates. Under this swap, which expires May 1, 2020, the Foundation pays a fixed rate of 3.30% and receives a floating rate that resets monthly based on LIBOR on the notional value of the second term note outstanding.

The outstanding interest rate swap is not designated as a hedge for accounting purposes. The effects of future fluctuations in LIBOR interest rates on derivatives held by the Foundation will result in the recording of unrealized gains or losses that are included in interest expense on the Statements of Activities and Changes in Net Assets.

Accordingly, at December 31, 2017 and 2016, the Foundation recorded an unrealized gain on the interest rate swap of \$44,627 and \$46,628 in order to adjust the interest rate swap to fair market value for the years then ended. The net mark-to-market liability at December 31, 2017 and 2016 of \$5,969 and \$50,596 is recorded in the Statements of Financial Position, with the portion of the net liability relating to interest to be paid by the Foundation reflected in interest expense within the Statements of Activities and Changes in Net Assets.

Interest expense for the years 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Gross interest expense	\$ 111,759	\$ 144,412
Less mark to market unrealized gain	(44,627)	(46,628)
Bond accretion	<u>10,486</u>	<u>6,835</u>
Net interest expense	<u>\$ 77,618</u>	<u>\$ 104,619</u>

**NOTE 7 - EMPLOYEE BENEFIT PLAN**

The Foundation provides a 401(k) profit sharing plan, which covers all qualified employees. Participants may contribute up to 85% of their pre-tax annual compensation as defined in the Plan, up to the maximum amount permissible under tax laws. For the years 2017 and 2016, the Foundation matched 100% of the employees' contribution, up to 5% of the employees' pre-tax annual compensation as defined by the Plan. The Plan also provides for a profit sharing contribution at the discretion of the Board of Trustees of the Foundation. The Foundation's expense under the Plan was \$72,864 and \$46,385 for the years 2017 and 2016.

**NOTE 8 - DONATED TO THE UNITED STATES AIR FORCE**

Museum buildings and related physical facilities constructed by or funded by the Foundation and other property have been donated to the United States Air Force. As of December 31, 2017 and 2016, the Foundation donated cash and investments for the following:

	<u>2017</u>	<u>2016</u>
Building upgrades and additions	<u>\$ 45,089</u>	<u>\$ 37,125</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

The temporarily restricted net assets at December 31, 2017 and 2016 relate to the following:

	<u>2017</u>	<u>2016</u>
Purpose restrictions	<u>\$ 830,945</u>	<u>\$ 689,695</u>



**THE AIR FORCE MUSEUM FOUNDATION, INC.**

**SCHEDULE OF REVENUE AND EXPENSES**

**YEAR ENDED DECEMBER 31, 2017**

	<b>Total</b>	<b>Other Operations</b>	<b>Museum Store</b>	<b>Attractions</b>
<b>REVENUE</b>				
Merchandise sales	\$ 3,114,673	\$ -	\$ 3,074,493	\$ 40,180
Building and education fund donations	1,017,175	1,011,275	-	5,900
Other gifts and grants	1,097,417	1,097,417	-	-
Attractions ticket sales	1,147,132	-	-	1,147,132
Interest and dividends, net	224,275	224,275	-	-
Membership fees	73,152	73,152	-	-
Memorial park fund	5,689	5,689	-	-
Cafe net sales	471,845	396,845	-	75,000
Mail order fees, concessions, and other	60,460	6,413	33,134	20,913
Realized gains on investments, net	80,430	80,430	-	-
	<u>7,292,248</u>	<u>2,895,496</u>	<u>3,107,627</u>	<u>1,289,125</u>
Total revenues				
<b>EXPENSES</b>				
Salaries and wages	1,771,633	1,010,688	401,252	359,693
Cost of merchandise sold	1,269,125	-	1,235,319	33,806
Service contracts	152,840	97,754	18,654	36,432
Museum program support	272,064	272,064	-	-
Interest expense, net	77,618	77,618	-	-
Attractions operations	416,118	-	-	416,118
Depreciation and amortization	228,691	105,667	14,042	108,982
Payroll taxes	134,524	71,307	32,828	30,389
Professional services	86,866	83,718	1,679	1,469
Bank and card processing fees	99,713	10,540	67,261	21,912
Special events	12,126	4,764	-	7,362
Investment management fees	33,812	33,812	-	-
Printing costs	98,270	98,270	-	-
Shipping and postage	71,128	47,654	22,013	1,461
Marketing and advertising	112,684	108,940	1,819	1,925
Cafe in-house expenses	32,303	32,303	-	-
Medical and life insurance benefits	37,941	20,216	8,239	9,486
401(k) contributions	72,864	45,393	16,810	10,661
Supplies	36,752	17,209	15,919	3,624
Insurance	30,587	18,314	3,976	8,297
Other	35,253	30,304	2,351	2,598
Travel	302	302	-	-
Telephone	11,930	6,960	1,721	3,249
Equipment	18,932	1,686	3,674	13,572
Loss on disposal of assets	263	-	-	263
	<u>5,114,339</u>	<u>2,195,483</u>	<u>1,847,557</u>	<u>1,071,299</u>
Total expenses				
<b>REVENUE IN EXCESS OF EXPENSES</b>	<b>\$ 2,177,909</b>	<b>\$ 700,013</b>	<b>\$ 1,260,070</b>	<b>\$ 217,826</b>

THE AIR FORCE MUSEUM FOUNDATION, INC.

SCHEDULE OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Total	Other Operations	Museum Store	Attractions
<b>REVENUE</b>				
Merchandise sales	\$ 2,973,166	\$ -	\$ 2,936,689	\$ 36,477
Building and education fund donations	384,840	367,340	-	17,500
Other gifts and grants	1,866,503	1,854,010	12,493	-
Attractions ticket sales	1,064,099	-	-	1,064,099
Interest and dividends, net	148,128	148,128	-	-
Membership fees	470,940	470,940	-	-
Memorial park fund	2,693	2,693	-	-
Cafe net sales	323,275	272,654	-	50,621
Mail order fees, concessions, and other	71,886	19,823	29,525	22,538
Realized gains on investments, net	16,089	16,089	-	-
Total revenues	<u>7,321,619</u>	<u>3,151,677</u>	<u>2,978,707</u>	<u>1,191,235</u>
<b>EXPENSES</b>				
Salaries and wages	1,597,755	923,073	369,239	305,443
Cost of merchandise sold	1,243,044	-	1,219,005	24,039
Service contracts	159,345	107,788	17,776	33,781
Museum program support	273,021	273,021	-	-
Interest expense, net	104,619	104,619	-	-
Attractions operations	381,592	-	-	381,592
Depreciation and amortization	217,044	97,907	10,691	108,446
Payroll taxes	122,366	64,219	30,995	27,152
Professional services	68,982	68,182	-	800
Bank and card processing fees	91,002	11,764	60,855	18,383
Special events	33,522	26,707	-	6,815
Investment management fees	20,217	20,217	-	-
Printing costs	78,384	78,384	-	-
Shipping and postage	70,265	50,299	18,724	1,242
Marketing and advertising	122,389	118,601	1,811	1,977
Cafe in-house expenses	40,244	40,244	-	-
Medical and life insurance benefits	29,569	12,232	9,434	7,903
401(k) contributions	46,385	29,996	11,880	4,509
Supplies	35,987	14,270	18,196	3,521
Insurance	28,579	17,997	3,428	7,154
Other	37,941	34,341	1,636	1,964
Travel	4,697	3,738	417	542
Telephone	11,960	7,111	1,762	3,087
Equipment	27,314	7,927	2,065	17,322
Loss on disposal of assets	338	-	-	338
Total expenses	<u>4,846,561</u>	<u>2,112,637</u>	<u>1,777,914</u>	<u>956,010</u>
<b>REVENUE IN EXCESS OF EXPENSES</b>	<u>\$ 2,475,058</u>	<u>\$ 1,039,040</u>	<u>\$ 1,200,793</u>	<u>\$ 235,225</u>