

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

THE AIR FORCE MUSEUM FOUNDATION, INC.

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YEARS ENDED DECEMBER 31, 2019 AND 2018

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, 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.

3601 Rigby Road • Suite 400 • Dayton, Ohio • 45342-4981
1 Woodside Drive • Richmond, Indiana • 47374-2630
4249 Easton Way • Suite 100 • Columbus, Ohio • 43219-6170
11175 Cicero Drive • Suite 300 • Alpharetta, Georgia • 30022-1166

www.bradyware.com

INDEPENDENT AUDITORS' REPORT - CONTINUED

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, 2019 and 2018, 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.

Brady, Ware & Schoenfeld, Inc.

Dayton, Ohio
May 4, 2020

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,511,656	\$ 1,569,261
Investments - at fair value	1,842,221	2,217,791
Interest and dividends receivable	32,029	26,597
Merchandise inventories	255,957	259,642
Current portion of pledges receivable	56,550	1,029,075
Prepaid expenses and other assets	<u>165,624</u>	<u>117,251</u>
Total current assets	<u>4,864,037</u>	<u>5,219,617</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	242,256	242,256
Furniture and equipment	<u>2,026,501</u>	<u>1,984,548</u>
	2,268,757	2,226,804
Less accumulated depreciation	<u>1,733,378</u>	<u>1,631,239</u>
Total property and equipment	<u>535,379</u>	<u>595,565</u>
OTHER ASSETS		
Annuities receivable	5,103	9,021
Other assets	5,221	15,660
Investments - at fair value	16,393,366	12,177,481
Interest rate swap asset	-	8,420
Pledges receivable - net of current portion	<u>-</u>	<u>967,647</u>
Total other assets	<u>16,403,690</u>	<u>13,178,229</u>
	<u>\$ 21,803,106</u>	<u>\$ 18,993,411</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 211,703	\$ 147,529
Accrued liabilities		
Payroll and sales taxes, PTO and 401(k) contributions	189,250	215,068
Accrued interest	2,842	5,683
Notes payable - current portion	1,000,000	1,000,000
Interest rate swap liability - current	<u>1,199</u>	<u>-</u>
Total current liabilities	1,404,994	1,368,280
LONG-TERM LIABILITIES		
Notes payable - net of current portion	-	1,000,000
Deferred revenue	<u>7,288</u>	<u>14,743</u>
Total liabilities	<u>1,412,282</u>	<u>2,383,023</u>
NET ASSETS		
Without donor restrictions	19,705,648	15,874,384
With donor restrictions	<u>685,176</u>	<u>736,004</u>
Total net assets	<u>20,390,824</u>	<u>16,610,388</u>
	<u>\$ 21,803,106</u>	<u>\$ 18,993,411</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Merchandise sales	\$ 3,349,127	\$ -	\$ 3,349,127
Building and education fund donations	423,975	36,332	460,307
Other gifts and grants	1,505,040	-	1,505,040
Attractions ticket sales	1,198,919	-	1,198,919
Net investment return	256,661	-	256,661
Membership fees	44,506	-	44,506
Memorial park fund	6,574	12,293	18,867
Cafe net sales	496,503	-	496,503
Mail order fees, concessions, and other	60,419	-	60,419
Realized gain on investments, net	<u>73,844</u>	<u>-</u>	<u>73,844</u>
Total revenue	<u>7,415,568</u>	<u>48,625</u>	<u>7,464,193</u>
EXPENSES			
Salaries and wages	1,982,563	-	1,982,563
Cost of merchandise sold	1,354,331	-	1,354,331
Service contracts	221,458	-	221,458
Museum program support	405,008	-	405,008
Interest expense, net	54,077	-	54,077
Attractions operations	575,469	-	575,469
Depreciation and amortization	142,819	-	142,819
Payroll taxes	146,835	-	146,835
Professional services	90,928	-	90,928
Bank and card processing fees	111,990	-	111,990
Special events	76,300	-	76,300
Printing costs	134,675	-	134,675
Shipping and postage	84,071	-	84,071
Marketing and advertising	189,338	-	189,338
Cafe in-house expenses	36,040	-	36,040
Medical and life insurance benefits	131,506	-	131,506
401(k) contributions	85,274	-	85,274
Supplies	30,820	-	30,820
Insurance	37,598	-	37,598
Other	50,387	-	50,387
Travel	17,137	-	17,137
Telephone	9,559	-	9,559
Equipment	23,891	-	23,891
Loss on disposal of property and equipment	<u>395</u>	<u>-</u>	<u>395</u>
Total expenses	<u>5,992,469</u>	<u>-</u>	<u>5,992,469</u>
REVENUE IN EXCESS OF EXPENSES	1,423,099	48,625	1,471,724
RELEASED FROM DONOR RESTRICTIONS	99,453	(99,453)	-
UNREALIZED GAIN ON INVESTMENTS, NET	<u>2,308,712</u>	<u>-</u>	<u>2,308,712</u>
CHANGE IN NET ASSETS	3,831,264	(50,828)	3,780,436
NET ASSETS			
Beginning of year	<u>15,874,384</u>	<u>736,004</u>	<u>16,610,388</u>
End of year	<u>\$ 19,705,648</u>	<u>\$ 685,176</u>	<u>\$ 20,390,824</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Merchandise sales	\$ 3,601,915	\$ -	\$ 3,601,915
Building and education fund donations	218,014	23,100	241,114
Other gifts and grants	2,360,126	-	2,360,126
Attractions ticket sales	1,119,187	-	1,119,187
Net investment return	222,714	-	222,714
Membership fees	57,682	-	57,682
Memorial park fund	6,107	15,914	22,021
Cafe net sales	546,026	-	546,026
Mail order fees, concessions, and other	83,973	-	83,973
Realized gain on investments, net	488,656	-	488,656
Total revenue	<u>8,704,400</u>	<u>39,014</u>	<u>8,743,414</u>
EXPENSES			
Salaries and wages	1,754,495	-	1,754,495
Cost of merchandise sold	1,458,421	-	1,458,421
Service contracts	141,012	-	141,012
Museum program support	450,166	-	450,166
Interest expense, net	63,528	-	63,528
Attractions operations	406,249	-	406,249
Depreciation and amortization	144,797	-	144,797
Payroll taxes	130,621	-	130,621
Professional services	85,613	-	85,613
Bank and card processing fees	107,648	-	107,648
Special events	34,949	-	34,949
Printing costs	106,513	-	106,513
Shipping and postage	79,184	-	79,184
Marketing and advertising	121,187	-	121,187
Cafe in-house expenses	31,509	-	31,509
Medical and life insurance benefits	48,934	-	48,934
401(k) contributions	70,879	-	70,879
Supplies	36,060	-	36,060
Insurance	34,883	-	34,883
Other	35,272	-	35,272
Travel	13,248	-	13,248
Telephone	10,349	-	10,349
Equipment	21,426	-	21,426
Loss on disposal of property and equipment	1,358	-	1,358
Total expenses	<u>5,388,301</u>	<u>-</u>	<u>5,388,301</u>
REVENUE IN EXCESS OF EXPENSES	3,316,099	39,014	3,355,113
RELEASED FROM DONOR RESTRICTIONS	133,955	(133,955)	-
UNREALIZED LOSS ON INVESTMENTS, NET	<u>(1,448,773)</u>	<u>-</u>	<u>(1,448,773)</u>
CHANGE IN NET ASSETS	2,001,281	(94,941)	1,906,340
NET ASSETS			
Beginning of year	<u>13,873,103</u>	<u>830,945</u>	<u>14,704,048</u>
End of year	<u>\$ 15,874,384</u>	<u>\$ 736,004</u>	<u>\$ 16,610,388</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Goods Sold</u>	<u>Total</u>
Salaries and wages	\$ 1,208,857	\$ 303,806	\$ 469,900	\$ -	\$ 1,982,563
Cost of merchandise sold	-	-	-	1,354,331	1,354,331
Service contracts	112,664	77,381	31,413	-	221,458
Museum program support	405,008	-	-	-	405,008
Interest expense, net	54,077	-	-	-	54,077
Attractions operations	575,469	-	-	-	575,469
Depreciation and amortization	95,214	12,845	34,760	-	142,819
Payroll taxes	93,448	21,350	32,037	-	146,835
Professional services	1,434	81,242	8,252	-	90,928
Bank and card procession fees	97,741	3,965	10,284	-	111,990
Special events	57,468	-	18,832	-	76,300
Printing costs	55,432	3,462	75,781	-	134,675
Shipping and postage	50,228	1,520	32,323	-	84,071
Marketing and advertising	178,138	343	10,857	-	189,338
Cafe in-house expenses	36,040	-	-	-	36,040
Medical and life insurance benefits	78,891	20,050	32,565	-	131,506
401(k) contributions	50,651	14,638	19,985	-	85,274
Supplies	18,233	6,427	6,160	-	30,820
Insurance	22,649	14,949	-	-	37,598
Other	3,973	23,461	22,953	-	50,387
Travel	819	2,248	14,070	-	17,137
Telephone	3,619	2,767	3,173	-	9,559
Equipment	19,894	1,116	2,881	-	23,891
Loss on disposal of property and equipment	-	-	395	-	395
	<u>\$ 3,219,947</u>	<u>\$ 591,570</u>	<u>\$ 826,621</u>	<u>\$ 1,354,331</u>	<u>\$ 5,992,469</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Goods Sold</u>	<u>Total</u>
Salaries and wages	\$ 1,083,680	\$ 287,211	\$ 383,604	\$ -	\$ 1,754,495
Cost of merchandise sold	-	-	-	1,458,421	1,458,421
Service contracts	68,780	42,740	29,492	-	141,012
Museum program support	450,166	-	-	-	450,166
Interest expense, net	63,528	-	-	-	63,528
Attractions operations	406,249	-	-	-	406,249
Depreciation and amortization	99,541	12,201	33,055	-	144,797
Payroll taxes	83,107	19,782	27,732	-	130,621
Professional services	1,693	83,107	813	-	85,613
Bank and card procession fees	96,373	3,664	7,611	-	107,648
Special events	21,357	-	13,592	-	34,949
Printing costs	52,456	3,769	50,288	-	106,513
Shipping and postage	46,686	1,394	31,104	-	79,184
Marketing and advertising	106,270	585	14,332	-	121,187
Cafe in-house expenses	31,509	-	-	-	31,509
Medical and life insurance benefits	27,992	10,201	10,741	-	48,934
401(k) contributions	44,172	13,128	13,579	-	70,879
Supplies	20,378	6,598	9,084	-	36,060
Insurance	20,759	14,124	-	-	34,883
Other	3,618	12,497	19,157	-	35,272
Travel	3,050	3,330	6,868	-	13,248
Telephone	4,400	2,521	3,428	-	10,349
Equipment	19,044	649	1,733	-	21,426
Loss on disposal of property and equipment	650	708	-	-	1,358
	<u>\$ 2,755,458</u>	<u>\$ 518,209</u>	<u>\$ 656,213</u>	<u>\$ 1,458,421</u>	<u>\$ 5,388,301</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,780,436	\$ 1,906,340
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	142,819	144,797
Change in net present value of pledge receivables	(33,853)	(66,453)
Net (gain) loss on investments	(2,382,556)	960,117
Unrealized (gain) loss on interest rate swap	9,619	(14,389)
Loss on disposal of property and equipment	<u>395</u>	<u>1,358</u>
	1,516,860	2,931,770
Changes in operating assets and liabilities:		
Interest and dividends receivable	(5,432)	3,341
Merchandise inventories	3,685	171
Pledges receivable	1,974,025	1,014,780
Annuity receivable	3,918	3,767
Prepaid expenses and other assets	(48,373)	(16,552)
Accounts payable	64,174	34,448
Deferred revenue	(7,455)	(42,402)
Accrued liabilities	<u>(28,659)</u>	<u>(43,524)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>3,472,743</u>	<u>3,885,799</u>
INVESTING ACTIVITIES		
Purchases of investments	(4,990,832)	(6,819,402)
Maturities and sales of investments	3,533,073	3,978,307
Purchases of property and equipment	(72,589)	(122,899)
Proceeds from sale of property and equipment	<u>-</u>	<u>75</u>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(1,530,348)</u>	<u>(2,963,919)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(1,000,000)</u>	<u>(1,000,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	942,395	(78,120)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,569,261</u>	<u>1,647,381</u>
End of year	<u>\$ 2,511,656</u>	<u>\$ 1,569,261</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 47,299</u>	<u>\$ 80,759</u>

NOTES TO FINANCIAL STATEMENTS

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.

Basis of Presentation - Accounting standards require the Organization to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation has no net assets that are required to be maintained in perpetuity.

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 net assets with donor restrictions 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, 2019 and 2018, there were no pledges requiring an allowance per Foundation policy.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 has a capitalization policy of \$500.

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, 2019 and 2018.

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 gain on investments, net and Unrealized gain (loss) 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 2019 and 2018, approximately 97% and 98% of the undiscounted pledges receivable, or \$56,550 and \$2,000,000, 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 2019 and 2018.

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.

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. See Note 2 for additional revenue recognition disclosures.

Contributions - In accordance with accounting standards, the Foundation accounts for contributions received as support without donor restrictions or support with donor restrictions, depending on the existence or nature of any donor restrictions.

Gifts of cash and other assets are reported as support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions. Investment income that is limited to specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the income is recognized.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 \$24,489 and \$64,775, have been included in the Statements of Activities and Changes in Net Assets as part of the appropriate expense category for the years 2019 and 2018.

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 \$8,117 and \$3,050 of unrelated business taxable income for the years 2019 and 2018. No tax liability was recorded as the Foundation has carry-forward losses to offset this income.

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, 2019.

Functional Allocation of Expenses - The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The main expenses that are allocated include salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

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

Adoption of New Accounting Standards - The Foundation adopted the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the scope and the accounting guidance for contributions received, including determining whether a contribution is conditional, and contributions made.

Recently Issued Accounting Standards Not Yet Adopted - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require the recognition of right-to-use assets and lease liabilities for leases previously classified as operating leases by lessees. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2021. Early application will be permitted. The Foundation is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 4, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - REVENUE RECOGNITION

The FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification ("ASC"). Topic 606 replaced most existing revenue recognition guidance in U.S. GAAP, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Topic 606 does not apply to public support received by the Foundation or to return on investments.

The Foundation adopted the requirements of the new guidance as of January 1, 2019, utilizing the modified retrospective method of transition. Adoption of the new guidance did not require any changes to the Foundation's accounting policies for revenue recognition, trade and other receivables, contract costs, contract liabilities, or deferred costs. Accordingly, there has been no adjustments to net assets or any other statement of financial position accounts as of January 1, 2019, to reflect adoption of the new guidance.

The Foundation derives its revenues primarily from public support, investment income, membership fees, merchandise sales, cafe sales and attraction ticket sales. Revenues subject to ASC Topic 606 include merchandise sales, cafe sales and attraction ticket sales. For merchandise sales and cafe sales, revenue is recognized when control of these products is transferred to its customers, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those products. Merchandise sales relating to museum gift cards or products on backorder are recorded as deferred revenue at the time of sale and are not recognized as revenue until order fulfillment. For attraction ticket sales, revenue is recognized when the service has been provided to the customer. Attractions include primarily theatre ticket sales and simulators. Sales and other taxes the Foundation collects concurrent with the revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. Costs incurred to obtain a contract are expensed as incurred when the amortization period is less than a year. The Foundation does not have any significant financing components.

Revenue from performance obligations satisfied at a point in time consists of merchandise sales, cafe sales and attraction ticket sales. These goods and services are sold to end customers which include visitors of the Museum.

Performance Obligations

For performance obligations related to merchandise sales and cafe sales, control transfers to the customer at a point in time. Most sales are completed at the gift shop or cafes located in the Museum, however, some gift shop sales are conducted through online orders. For these sales, the Foundation's terms are FOB Destination, and the Foundation transfers control and records revenue for product sales upon delivery to the customer. Revenue from attraction ticket sales is recognized when the service is provided, which is when the attraction is experienced by the end customer.

Variable Consideration

The nature of the Foundation's business gives rise to variable consideration, including discounts offered to employees, staff members and donors, as well as returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on product returns or price concessions.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - REVENUE RECOGNITION - CONTINUED

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Variable consideration is estimated based upon historical experience and known trends.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Foundation monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Foundation has the following financial assets, less those unavailable for general expenditure within one year:

	<u>2019</u>	<u>2018</u>
Financial Assets		
Cash	\$ 2,511,656	\$ 1,569,261
Investments - at fair value	18,235,587	14,395,272
Interest and dividends receivable	32,029	26,597
Pledges receivable, net	56,550	1,996,722
Annuities receivable	5,103	9,021
Other assets	<u>92,200</u>	<u>69,986</u>
	20,933,125	18,066,859
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	685,176	736,004
Annuities receivable collectible beyond one year	5,103	9,021
Pledges receivable collectible beyond one year or restricted by nature	<u>-</u>	<u>967,647</u>
	<u>690,279</u>	<u>1,712,672</u>
Financial assets available within one year of statement of financial position date for general expenditure	<u>\$ 20,242,846</u>	<u>\$ 16,354,187</u>

In addition to financial assets available to meet general expenditure over the year, the Foundation anticipates covering its general expenditures by collecting public support and revenue and by utilizing donor-restricted resources from current gifts and by appropriating the return on its investment portfolio.

NOTE 4 - MERCHANDISE INVENTORIES

	<u>2019</u>	<u>2018</u>
Gifts	\$ 125,208	\$ 147,355
Books	55,852	49,020
Prints	7,135	5,505
Models	15,139	9,866
Donated items	12,553	16,040
Audio visual	2,194	4,136
Other	<u>37,876</u>	<u>27,720</u>
	<u>\$ 255,957</u>	<u>\$ 259,642</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PLEDGES RECEIVABLE

The Foundation records pledges receivable at present value using a present value rate ranging from 2.5% to 3.5%. Pledges receivable are \$56,550 and \$1,996,722 at December 31, 2019 and 2018. 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. As all pledges receivable are expected to be received within one year, there is no discount to present value at December 31, 2019.

NOTE 6 - 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, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Money market securities	<u>\$ 810,112</u>	<u>\$ 1,287,771</u>
Common stocks	<u>10,512,350</u>	<u>7,270,675</u>
Mutual funds		
Large Cap U.S. equity fund	249,788	194,166
Fixed income funds	<u>5,818,942</u>	<u>4,992,298</u>
Total mutual funds	<u>6,068,730</u>	<u>5,186,464</u>
Alternative investments	<u>844,395</u>	<u>650,362</u>
Total investments	<u>18,235,587</u>	14,395,272
Less current investments	<u>1,842,221</u>	<u>2,217,791</u>
	<u>\$ 16,393,366</u>	<u>\$ 12,177,481</u>

The following reflects the cost and estimated fair values of marketable securities held at December 31, 2019 and 2018. In addition, gross unrealized gains and unrealized losses are disclosed for the years 2019 and 2018.

	<u>2019</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Money market funds	\$ 810,112	\$ -	\$ -	\$ 810,112
Common stock	9,171,181	1,341,169	-	10,512,350
Mutual funds	5,874,522	194,335	(127)	6,068,730
Alternative investments	<u>804,137</u>	<u>40,258</u>	<u>-</u>	<u>844,395</u>
	<u>\$ 16,659,952</u>	<u>\$ 1,575,762</u>	<u>\$ (127)</u>	<u>\$ 18,235,587</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INVESTMENTS - CONTINUED

	2018			Estimated Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Money market funds	\$ 1,287,771	\$ -	\$ -	\$ 1,287,771
Common stock	7,956,919	-	(686,244)	7,270,675
Mutual funds	5,264,298	32,150	(109,984)	5,186,464
Alternative investments	<u>628,004</u>	<u>22,358</u>	<u>-</u>	<u>650,362</u>
	<u>\$ 15,136,992</u>	<u>\$ 54,508</u>	<u>\$ (796,228)</u>	<u>\$ 14,395,272</u>

Unrealized gains (losses) of \$2,308,712 and \$(1,448,773), and realized gains of \$73,844 and \$488,656 from sales of investments, are included in the statements of activities for the years 2019 and 2018. Gross investment return for the years 2019 and 2018 totaled \$351,262 and \$290,884, which includes investment management fees of \$86,111 and \$58,194 and other investment expenses of \$8,490 and \$9,976 in net investment return in the Statements of Activities and Changes in Net Assets for the years 2019 and 2018.

NOTE 7 - 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, 2019.

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

Alternative investments: Value of these investments at year-end is based on observable model inputs.

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

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - FAIR VALUE - CONTINUED

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 2019 and 2018.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2019 and 2018:

	2019		
	Fair Value	Level 1	Level 2
Assets			
Money market securities	\$ 810,112	\$ 810,112	\$ -
Common stocks	10,512,350	10,512,350	-
Mutual funds	6,068,730	6,068,730	-
Alternative investments	844,395	-	844,395
	<u>\$ 18,235,587</u>	<u>\$ 17,391,192</u>	<u>\$ 844,395</u>
Liabilities			
Interest rate swap liability	\$ 1,199	\$ -	\$ 1,199
	<u>\$ 1,199</u>	<u>\$ -</u>	<u>\$ 1,199</u>
	2018		
	Fair Value	Level 1	Level 2
Assets			
Money market securities	\$ 1,287,771	\$ 1,287,771	\$ -
Common stocks	7,270,675	7,270,675	-
Mutual funds	5,186,464	5,186,464	-
Alternative investments	650,362		650,362
Interest rate swap asset	8,420		8,420
	<u>\$ 14,403,692</u>	<u>\$ 13,744,910</u>	<u>\$ 658,782</u>

NOTE 8 - 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. The final pledge payment was received by the Foundation in December 2019. 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. Due to the nature of the notes, the Foundation is not permitted to make early payment. As such, the final pledge payment received in December 2019 is included in "Cash and cash equivalents" rather than in "Current portion of pledges receivable" on the accompanying statement of financial position at December 31, 2019. The Foundation is considered to be in compliance with their debt covenants at December 31, 2019 and 2018.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - NOTES PAYABLE - CONTINUED

The First Term Note was paid off on the scheduled maturity date in June 2017. The Second Term Note bears an interest rate of London InterBank Offered Rate ("LIBOR") (1.76% and 2.50% at December 31, 2019 and 2018) plus 1.25%, and has a maturity date of May 2020.

Notes payable consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
First Financial - Second Term Note	1,000,000	2,000,000
Less current maturities	<u>1,000,000</u>	<u>1,000,000</u>
	\$ -	\$ 1,000,000

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

<u>Year Ending December 31:</u>	<u>Principal Payments</u>
2020	\$ 1,000,000

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, 2019, the Foundation recorded an unrealized loss on the interest rate swap of \$9,619 in order to adjust the interest rate swap to fair market value for the year then ended. At December 31, 2018, the Foundation recorded an unrealized gain on the interest rate swap of \$14,389 in order to adjust the interest rate swap to fair market value for the year then ended. The net mark-to-market asset (liability) at December 31, 2019 and 2018 of \$(1,199) and \$8,420 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 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Gross interest expense	\$ 44,458	\$ 77,917
Mark to market unrealized (gain) loss	<u>9,619</u>	<u>(14,389)</u>
Net interest expense	\$ 54,077	\$ 63,528

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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 2019 and 2018, 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 \$85,274 and \$70,879 for the years 2019 and 2018.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 were comprised of the following:

	<u>2019</u>	<u>2018</u>
Purpose restrictions	<u>\$ 685,176</u>	<u>\$ 736,004</u>

NOTE 11 - SUBSEQUENT EVENT - COVID-19 PANDEMIC

The COVID-19 pandemic is having a substantial impact on the stock market, the economy and the normal operations of most businesses. The severity of the financial impact of this pandemic on the financial position and long-term operations of the Foundation is not known at this time. The Foundation applied for financial assistance through the Small Business Administration Payroll Protection Program and received funds in the amount of \$397,400 on April 15, 2020. A portion of these funds are forgivable through the program given the Foundation utilizes them for approved expenses, which is the intent of the Foundation.