

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

THE AIR FORCE MUSEUM FOUNDATION, INC.

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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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.



Dayton, Ohio
May 6, 2019

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,569,261	\$ 1,647,381
Investments - at fair value	2,217,791	2,153,128
Interest and dividends receivable	26,597	29,938
Merchandise inventories	259,642	259,813
Current portion of pledges receivable	1,029,075	1,045,355
Prepaid expenses and other assets	<u>117,251</u>	<u>100,699</u>
Total current assets	<u>5,219,617</u>	<u>5,236,314</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	242,256	242,851
Furniture and equipment	<u>1,984,548</u>	<u>1,883,347</u>
	2,226,804	2,126,198
Less accumulated depreciation	<u>1,631,239</u>	<u>1,517,742</u>
Total property and equipment	<u>595,565</u>	<u>608,456</u>
OTHER ASSETS		
Annuities receivable	9,021	12,788
Other assets	15,660	26,099
Investments - at fair value	12,177,481	10,361,167
Interest rate swap asset	8,420	-
Pledges receivable - net of current portion	<u>967,647</u>	<u>1,899,694</u>
Total other assets	<u>13,178,229</u>	<u>12,299,748</u>
	<u>\$ 18,993,411</u>	<u>\$ 18,144,518</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 147,529	\$ 113,081
Accrued liabilities		
Payroll and sales taxes, and 401(k) contributions	215,068	255,750
Accrued interest	5,683	8,525
Notes payable - current portion	<u>1,000,000</u>	<u>1,000,000</u>
Total current liabilities	1,368,280	1,377,356
Notes payable - net of current portion	1,000,000	2,000,000
Interest rate swap liability	-	5,969
Deferred revenue	<u>14,743</u>	<u>57,145</u>
Total liabilities	<u>2,383,023</u>	<u>3,440,470</u>
NET ASSETS		
Without donor restrictions	15,874,384	13,873,103
With donor restrictions	<u>736,004</u>	<u>830,945</u>
Total net assets	<u>16,610,388</u>	<u>14,704,048</u>
	<u>\$ 18,993,411</u>	<u>\$ 18,144,518</u>

See notes to financial statements.

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>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
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
Net investment return	179,977	-	179,977
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 gain on investments, net	80,430	-	80,430
Total revenue	<u>7,049,259</u>	<u>198,691</u>	<u>7,247,950</u>
EXPENSES			
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	67,132	-	67,132
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
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
Donated to the United States Air Force	45,089	-	45,089
Total expenses	<u>5,115,130</u>	<u>-</u>	<u>5,115,130</u>
REVENUE IN EXCESS OF EXPENSES	1,934,129	198,691	2,132,820
RELEASED FROM DONOR RESTRICTIONS	57,441	(57,441)	-
UNREALIZED GAIN ON INVESTMENTS, NET	<u>482,061</u>	<u>-</u>	<u>482,061</u>
CHANGE IN NET ASSETS	2,473,631	141,250	2,614,881
NET ASSETS			
Beginning of year	<u>11,399,472</u>	<u>689,695</u>	<u>12,089,167</u>
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 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.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Goods Sold</u>	<u>Total</u>
Salaries and wages	\$ 1,046,240	\$ 372,647	\$ 352,746	\$ -	\$ 1,771,633
Cost of merchandise sold	-	-	-	1,269,125	1,269,125
Service contracts	87,902	40,351	24,587	-	152,840
Museum program support	272,064	-	-	-	272,064
Interest expense, net	67,132	-	-	-	67,132
Attractions operations	416,118	-	-	-	416,118
Depreciation and amortization	176,605	21,819	30,267	-	228,691
Payroll taxes	83,047	26,027	25,450	-	134,524
Professional services	3,587	80,934	2,345	-	86,866
Bank and card processing fees	89,173	4,517	6,023	-	99,713
Special events	7,362	-	4,764	-	12,126
Printing costs	54,853	3,368	40,049	-	98,270
Shipping and postage	47,760	1,464	21,904	-	71,128
Marketing and advertising	104,520	-	8,164	-	112,684
Cafe in-house expenses	32,303	-	-	-	32,303
Medical and life insurance benefits	19,592	8,413	9,936	-	37,941
401(k) contributions	39,923	18,320	14,621	-	72,864
Supplies	20,331	5,327	11,094	-	36,752
Insurance	15,904	14,683	-	-	30,587
Other	6,546	11,662	17,045	-	35,253
Travel	-	-	302	-	302
Telephone	4,970	3,638	3,322	-	11,930
Equipment	18,521	308	103	-	18,932
Loss on disposal of property and equipment	263	-	-	-	263
Donated to the United States Air Force	45,089	-	-	-	45,089
	<u>\$ 2,659,805</u>	<u>\$ 613,478</u>	<u>\$ 572,722</u>	<u>\$ 1,269,125</u>	<u>\$ 5,115,130</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 1,906,340	\$ 2,614,881
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	144,797	228,691
Change in net present value of pledge receivables	(66,453)	(98,264)
Net (gain) loss on investments	960,117	(562,491)
Unrealized gain on interest rate swap	(14,389)	(44,627)
Loss on disposal of property and equipment	1,358	263
	<u>2,931,770</u>	<u>2,138,453</u>
Changes in operating assets and liabilities:		
Interest and dividends receivable	3,341	(5,211)
Merchandise inventories	171	5,223
Pledges receivable	1,014,780	1,096,845
Annuity receivable	3,767	3,622
Prepaid expenses and other assets	(16,552)	5,180
Accounts payable	34,448	9,092
Deferred revenue	(42,402)	(8,738)
Accrued liabilities	(43,524)	64,178
	<u>3,885,799</u>	<u>3,308,644</u>
Net Cash and Cash Equivalents Provided by Operating Activities		
INVESTING ACTIVITIES		
Purchases of investments	(6,819,402)	(3,751,011)
Maturities and sales of investments	3,978,307	2,035,202
Purchases of property and equipment	(122,899)	(47,718)
Proceeds from sale of property and equipment	75	-
	<u>(2,963,919)</u>	<u>(1,763,527)</u>
Net Cash and Cash Equivalents Used by Investing Activities		
FINANCING ACTIVITIES		
Principal payments on notes payable	(1,000,000)	(1,102,700)
	<u>(78,120)</u>	<u>442,417</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	<u>1,647,381</u>	<u>1,204,964</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	1,647,381	1,204,964
End of year	<u>\$ 1,569,261</u>	<u>\$ 1,647,381</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 80,759</u>	<u>\$ 114,766</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

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.

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, 2018 and 2017, 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 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, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

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 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 2018 and 2017, approximately 98% and 99% of the undiscounted pledges receivable, or \$2,000,000 and \$3,000,000, 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 2018 and 2017.

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 Revenue - 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 - 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.

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 \$64,775 and \$3,798, have been included in the Statements of Activities and Changes in Net Assets as part of the appropriate expense category for the years 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

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 \$3,050 of unrelated business taxable income for the year 2018. No tax liability was recorded as the Foundation has carry-forward losses to offset this income. The Foundation had no unrelated business taxable income for the year 2017.

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, 2018.

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.

Recently Issued Accounting Standards Not Yet Adopted - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). 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, 2019. The Foundation is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in June 2018. This standard will be effective for the calendar year ending December 31, 2019. The Foundation is currently in the process of evaluating the impact of adoption of this standard on the financial statements.

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, 2020. 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.

Adoption of New Accounting Standards - The Foundation adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during 2018. ASU 2016-14 addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been applied retrospectively to all periods presented.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 6, 2019, the date the financial statements were available to be issued.

NOTE 2 - 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:

Financial Assets	
Cash	\$ 1,569,261
Investments - at fair value	14,395,272
Interest and dividends receivable	26,597
Pledges receivable, net	1,996,722
Annuities receivable	9,021
Other assets	<u>69,986</u>
	18,066,859
Less those unavailable for general expenditure within one year due to:	
Purpose restrictions	736,004
Pledges receivable collectible beyond one year or restricted by nature	<u>967,647</u>
	<u>1,703,651</u>
Financial assets available within one year of statement of financial position date for general expenditure	<u>\$ 16,363,208</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 3 - MERCHANDISE INVENTORIES

	<u>2018</u>	<u>2017</u>
Gifts	\$ 147,355	\$ 114,603
Books	49,020	61,263
Prints	5,505	5,931
Models	9,866	14,690
Donated items	16,040	35,844
Audio visual	4,136	1,882
Other	<u>27,720</u>	<u>25,600</u>
	<u>\$ 259,642</u>	<u>\$ 259,813</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - 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 \$1,996,722 and \$2,945,049 at December 31, 2018 and 2017. 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 following table is a schedule of the amounts receivable for the next two years:

<u>Years Ending December 31:</u>	<u>Pledges Receivable</u>
2019	\$ 1,029,075
2020	<u>1,001,500</u>
	2,030,575
Less discount to net present value	<u>33,853</u>
	<u>\$ 1,996,722</u>

NOTE 5 - 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, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Money market securities	<u>\$ 1,287,771</u>	<u>\$ 1,411,139</u>
Common stocks	<u>7,270,675</u>	<u>4,322,486</u>
Mutual funds		
Large Cap U.S. equity fund	194,166	208,055
Alternative investments	650,362	615,651
Fixed income funds	<u>4,992,298</u>	<u>5,956,964</u>
Total mutual funds	<u>5,836,826</u>	<u>6,780,670</u>
Total investments	14,395,272	12,514,295
Less current investments	<u>2,217,791</u>	<u>2,153,128</u>
	<u>\$ 12,177,481</u>	<u>\$ 10,361,167</u>

Investment management fees for the years 2018 and 2017 totaled \$58,194 and \$33,812.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - 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, 2018.

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

Interest rate swap asset (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 2018 and 2017.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2018 and 2017:

	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	5,836,826	5,836,826	-
Interest rate swap asset	8,420	-	8,420
	<u>\$ 14,403,692</u>	<u>\$ 14,395,272</u>	<u>\$ 8,420</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - FAIR VALUE - continued

	<u>Fair Value</u>	<u>2017</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>-</u>
	<u>\$ 12,514,295</u>	<u>\$ 12,514,295</u>	<u>\$ -</u>
Liabilities			
Interest rate swap liability	<u>\$ 5,969</u>	<u>\$ -</u>	<u>\$ 5,969</u>

NOTE 7 - 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 are 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) (2.50% and 1.56% at December 31, 2018 and 2017) 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
First Financial - Second Term Note	2,000,000	3,000,000
Less current maturities	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$ 1,000,000</u>	<u>\$ 2,000,000</u>

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

<u>Years Ending</u> <u>December 31:</u>	<u>Principal</u> <u>Payments</u>
2019	\$ 1,000,000
2020	<u>1,000,000</u>
	<u>\$ 2,000,000</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - 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, 2018 and 2017, the Foundation recorded an unrealized gain on the interest rate swap of \$14,389 and \$44,627 in order to adjust the interest rate swap to fair market value for the years then ended. The net mark-to-market asset (liability) at December 31, 2018 and 2017 of \$8,420 and \$(5,969) 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 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Gross interest expense	\$ 77,917	\$ 111,759
Less mark to market unrealized gain	<u>(14,389)</u>	<u>(44,627)</u>
Net interest expense	<u>\$ 63,528</u>	<u>\$ 67,132</u>

NOTE 8 - 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 2018 and 2017, 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 \$70,879 and \$72,864 for the years 2018 and 2017.

NOTE 9 - 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, 2018 and 2017, the Foundation donated cash and investments for the following:

	<u>2018</u>	<u>2017</u>
Building upgrades and additions	<u>\$ -</u>	<u>\$ 45,089</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017 were comprised of the following:

	<u>2018</u>	<u>2017</u>
Purpose restrictions	<u>\$ 736,004</u>	<u>\$ 830,945</u>