

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

THE AIR FORCE MUSEUM FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **The Air Force Museum Foundation, Inc.** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **The Air Force Museum Foundation, Inc.'s** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Air Force Museum Foundation, Inc.'s** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **The Air Force Museum Foundation, Inc.'s** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Dayton, Ohio
May 3, 2022

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,467,275	\$ 1,355,368
Employee Retention Credit receivable	196,987	-
Investments - at fair value	2,750,291	3,310,439
Interest and dividends receivable	40,199	32,643
Merchandise inventories	193,199	199,681
Pledges receivable	13,850	7,850
Prepaid expenses and other assets	<u>75,205</u>	<u>77,979</u>
Total current assets	<u>5,737,006</u>	<u>4,983,960</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	229,352	229,352
Furniture and equipment	<u>2,157,273</u>	<u>2,063,608</u>
	2,386,625	2,292,960
Less accumulated depreciation	<u>1,927,362</u>	<u>1,847,182</u>
Total property and equipment	<u>459,263</u>	<u>445,778</u>
OTHER ASSETS		
Annuities receivable	-	1,029
Investments - at fair value	21,974,190	17,550,743
Pledges receivable - net of current portion	<u>14,364</u>	<u>-</u>
Total other assets	<u>21,988,554</u>	<u>17,551,772</u>
	<u>\$ 28,184,823</u>	<u>\$ 22,981,510</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 147,475	\$ 75,250
Accrued payroll and sales taxes, PTO and 401(k) contributions	<u>303,176</u>	<u>237,849</u>
Total current liabilities	450,651	313,099
LONG-TERM LIABILITIES		
Deferred revenue	<u>6,879</u>	<u>5,499</u>
Total liabilities	<u>457,530</u>	<u>318,598</u>
NET ASSETS		
Without donor restrictions	26,642,698	21,983,261
With donor restrictions	<u>1,084,595</u>	<u>679,651</u>
Total net assets	<u>27,727,293</u>	<u>22,662,912</u>
	<u>\$ 28,184,823</u>	<u>\$ 22,981,510</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Merchandise sales	\$ 3,185,423	\$ -	\$ 3,185,423
Building and education fund donations	120,559	484,577	605,136
Other gifts and grants	2,253,425	-	2,253,425
Attractions ticket sales	933,731	-	933,731
Net investment return	234,681	-	234,681
Memorial park fund	1,968	-	1,968
Cafe net sales	354,273	-	354,273
Mail order fees, concessions, and other	48,410	-	48,410
Realized gain on investments, net	1,289,741	-	1,289,741
Employee Retention Credit contribution	196,987	-	196,987
Paycheck Protection Program contribution	397,400	-	397,400
	<u>9,016,598</u>	<u>484,577</u>	<u>9,501,175</u>
Total revenue			
EXPENSES			
Salaries and wages	2,317,857	-	2,317,857
Cost of merchandise sold	1,288,333	-	1,288,333
Service contracts	237,721	-	237,721
Museum program support	351,871	-	351,871
Attractions operations	340,847	-	340,847
Depreciation and amortization	105,146	-	105,146
Payroll taxes	184,499	-	184,499
Professional services	95,163	-	95,163
Bank and card processing fees	141,766	-	141,766
Special events	6,488	-	6,488
Printing costs	155,287	-	155,287
Shipping and postage	81,651	-	81,651
Marketing and advertising	46,602	-	46,602
Cafe in-house expenses	18,842	-	18,842
Medical and life insurance benefits	123,706	-	123,706
401(k) contributions	98,794	-	98,794
Supplies	24,308	-	24,308
Insurance	29,263	-	29,263
Other	24,174	-	24,174
Telephone	5,688	-	5,688
Equipment	40,403	-	40,403
Loss on disposal of property and equipment	99	-	99
	<u>5,718,508</u>	<u>-</u>	<u>5,718,508</u>
Total expenses			
REVENUE IN EXCESS OF EXPENSES	3,298,090	484,577	3,782,667
RELEASED FROM DONOR RESTRICTIONS	79,633	(79,633)	-
UNREALIZED GAIN ON INVESTMENTS, NET	<u>1,281,714</u>	<u>-</u>	<u>1,281,714</u>
CHANGE IN NET ASSETS	4,659,437	404,944	5,064,381
NET ASSETS			
Beginning of year	<u>21,983,261</u>	<u>679,651</u>	<u>22,662,912</u>
End of year	<u>\$ 26,642,698</u>	<u>\$ 1,084,595</u>	<u>\$ 27,727,293</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Merchandise sales	\$ 1,327,677	\$ -	\$ 1,327,677
Building and education fund donations	68,668	72,353	141,021
Other gifts and grants	2,227,084	-	2,227,084
Attractions ticket sales	405,350	-	405,350
Net investment return	250,345	-	250,345
Memorial park fund	2,992	4,388	7,380
Cafe net sales	66,859	-	66,859
Mail order fees, concessions, and other	70,809	-	70,809
Realized gain on investments, net	35,388	-	35,388
Paycheck Protection Program contribution	397,400	-	397,400
Total revenue	<u>4,852,572</u>	<u>76,741</u>	<u>4,929,313</u>
EXPENSES			
Salaries and wages	2,128,316	-	2,128,316
Cost of merchandise sold	551,142	-	551,142
Service contracts	252,300	-	252,300
Museum program support	207,644	-	207,644
Interest expense, net	9,893	-	9,893
Attractions operations	157,378	-	157,378
Depreciation and amortization	136,900	-	136,900
Payroll taxes	162,999	-	162,999
Professional services	93,786	-	93,786
Bank and card processing fees	69,097	-	69,097
Special events	14,584	-	14,584
Printing costs	137,329	-	137,329
Shipping and postage	74,811	-	74,811
Marketing and advertising	40,305	-	40,305
Cafe in-house expenses	13,582	-	13,582
Medical and life insurance benefits	147,489	-	147,489
401(k) contributions	98,843	-	98,843
Supplies	39,129	-	39,129
Insurance	38,085	-	38,085
Other	28,601	-	28,601
Travel	1,028	-	1,028
Telephone	9,281	-	9,281
Equipment	18,316	-	18,316
Loss on disposal of property and equipment	13,294	-	13,294
Total expenses	<u>4,444,132</u>	<u>-</u>	<u>4,444,132</u>
REVENUE IN EXCESS OF EXPENSES	408,440	76,741	485,181
RELEASED FROM DONOR RESTRICTIONS	82,266	(82,266)	-
UNREALIZED GAIN ON INVESTMENTS, NET	<u>1,786,907</u>	<u>-</u>	<u>1,786,907</u>
CHANGE IN NET ASSETS	2,277,613	(5,525)	2,272,088
NET ASSETS			
Beginning of year	<u>19,705,648</u>	<u>685,176</u>	<u>20,390,824</u>
End of year	<u>\$ 21,983,261</u>	<u>\$ 679,651</u>	<u>\$ 22,662,912</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Goods Sold</u>	<u>Total</u>
Salaries and wages	\$ 1,334,230	\$ 381,601	\$ 602,026	\$ -	\$ 2,317,857
Cost of merchandise sold	-	-	-	1,288,333	1,288,333
Service contracts	83,838	111,041	42,842	-	237,721
Museum program support	351,871	-	-	-	351,871
Attractions operations	340,847	-	-	-	340,847
Depreciation and amortization	62,179	13,831	29,136	-	105,146
Payroll taxes	108,439	28,275	47,785	-	184,499
Professional services	1,064	92,006	2,093	-	95,163
Bank and card processing fees	119,445	5,847	16,474	-	141,766
Special events	5,306	-	1,182	-	6,488
Printing costs	65,914	2,606	86,767	-	155,287
Shipping and postage	54,823	1,308	25,520	-	81,651
Marketing and advertising	25,056	-	21,546	-	46,602
Cafe in-house expenses	18,842	-	-	-	18,842
Medical and life insurance benefits	80,935	12,430	30,341	-	123,706
401(k) contributions	59,286	17,446	22,062	-	98,794
Supplies	15,872	5,537	2,899	-	24,308
Insurance	18,784	10,479	-	-	29,263
Other	764	5,396	18,014	-	24,174
Telephone	2,988	1,543	1,157	-	5,688
Equipment	21,634	13,133	5,636	-	40,403
Loss on disposal of property and equipment	-	-	99	-	99
	<u>\$ 2,772,117</u>	<u>\$ 702,479</u>	<u>\$ 955,579</u>	<u>\$ 1,288,333</u>	<u>\$ 5,718,508</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Cost of Goods Sold</u>	<u>Total</u>
Salaries and wages	\$ 1,238,216	\$ 424,805	\$ 465,295	\$ -	\$ 2,128,316
Cost of merchandise sold	-	-	-	551,142	551,142
Service contracts	123,941	64,119	64,240	-	252,300
Museum program support	207,644	-	-	-	207,644
Interest expense, net	9,893	-	-	-	9,893
Attractions operations	157,378	-	-	-	157,378
Depreciation and amortization	92,148	11,887	32,865	-	136,900
Payroll taxes	98,629	29,894	34,476	-	162,999
Professional services	-	91,468	2,318	-	93,786
Bank and card processing fees	53,508	2,718	12,871	-	69,097
Special events	5,407	-	9,177	-	14,584
Printing costs	58,697	2,579	76,053	-	137,329
Shipping and postage	47,949	1,014	25,848	-	74,811
Marketing and advertising	33,807	7	6,491	-	40,305
Cafe in-house expenses	13,582	-	-	-	13,582
Medical and life insurance benefits	85,957	25,057	36,475	-	147,489
401(k) contributions	57,847	20,811	20,185	-	98,843
Supplies	19,088	4,581	15,460	-	39,129
Insurance	21,185	16,900	-	-	38,085
Other	3,334	3,520	21,747	-	28,601
Travel	-	-	1,028	-	1,028
Telephone	3,851	3,089	2,341	-	9,281
Equipment	14,083	1,995	2,238	-	18,316
Loss on disposal of property and equipment	13,294	-	-	-	13,294
	<u>\$ 2,359,438</u>	<u>\$ 704,444</u>	<u>\$ 829,108</u>	<u>\$ 551,142</u>	<u>\$ 4,444,132</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 5,064,381	\$ 2,272,088
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	105,146	136,900
Change in net present value of pledge receivables	636	-
Net gain on investments	(2,571,455)	(1,822,295)
Unrealized gain on interest rate swap	-	(1,199)
Donated property and equipment	(5,396)	-
Loss on disposal of property and equipment	99	13,294
Contribution from forgiveness of Paycheck Protection Program loan	(397,400)	(397,400)
	<u>2,196,011</u>	<u>201,388</u>
Changes in operating assets and liabilities:		
Employee Retention Credit receivable	(196,987)	-
Interest and dividends receivable	(7,556)	(614)
Merchandise inventories	6,482	56,276
Pledges receivable	(21,000)	48,700
Annuity receivable	1,029	4,074
Prepaid expenses and other assets	2,774	87,645
Accounts payable	72,225	(136,453)
Deferred revenue	1,380	(1,789)
Accrued liabilities	65,327	45,757
	<u>2,119,685</u>	<u>702,384</u>
Net Cash and Cash Equivalents Provided by Operating Activities		
	<u>2,119,685</u>	<u>702,384</u>
INVESTING ACTIVITIES		
Purchases of investments	(6,944,234)	(7,023,616)
Maturities and sales of investments	5,652,390	6,220,316
Purchases of property and equipment	(113,334)	(55,372)
	<u>(1,405,178)</u>	<u>(858,672)</u>
Net Cash and Cash Equivalents Used by Investing Activities		
	<u>(1,405,178)</u>	<u>(858,672)</u>
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	397,400	397,400
Principal payments on notes payable	-	(1,000,000)
	<u>397,400</u>	<u>(602,600)</u>
Net Cash and Cash Equivalents Provided (Used) by Financing Activities		
	<u>397,400</u>	<u>(602,600)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,111,907	(1,156,288)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,355,368</u>	<u>2,511,656</u>
End of year	<u>\$ 2,467,275</u>	<u>\$ 1,355,368</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ -</u>	<u>\$ 13,934</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - 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, Events, Museum Store, Cafe, 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, 2021 and 2020, there were no pledges requiring an allowance per Foundation policy.

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, 2021 and 2020.

Investments - Investments are recorded at fair value. 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 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. There were no material concentrations of pledges receivable for the year 2021 or 2020.

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 2021 and 2020.

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 and grants 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 Statements 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.

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 \$49,132 and \$26,293, have been included in the Statements of Activities and Changes in Net Assets as part of the appropriate expense category for the years 2021 and 2020.

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 \$4,878 of unrelated business taxable income for the year 2021. The Foundation had no unrelated business taxable income for the year 2020. 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, 2021.

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.

Recently Issued Accounting Standards Not Yet Adopted - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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, 2022. 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 3, 2022, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - REVENUE RECOGNITION

The Foundation derives its revenues primarily from public support, investment income, merchandise sales, cafe sales, event sales and attraction ticket sales. Revenues subject to ASC Topic 606 include merchandise sales, cafe sales, events 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 event sales and 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.

The contract balances at December 31, 2021 and 2020 are presented on the statements of financial position. At January 1, 2020, contract balances included deferred revenue of \$7,288.

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 event sales and attraction ticket sales is recognized when the service is provided, which is when the event or 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.

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.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents	\$ 2,467,275	\$ 1,355,368
Employee Retention Credit receivable	196,987	-
Investments - at fair value	24,724,481	20,861,182
Interest and dividends receivable	40,199	32,643
Pledges receivable, net	28,214	7,850
Annuities receivable	-	1,029
Other assets	<u>12,029</u>	<u>15,120</u>
	27,469,185	22,273,192
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	1,084,595	679,651
Annuities receivable collectible beyond one year	-	1,029
Pledges receivable collectible beyond one year or restricted by nature	<u>14,364</u>	<u>-</u>
	<u>1,098,959</u>	<u>680,680</u>
Financial assets available within one year of statement of financial position date for general expenditure	<u>\$ 26,370,226</u>	<u>\$ 21,592,512</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 - EMPLOYEE RETENTION CREDIT

The Foundation was subject to a government-ordered shutdown for a period during 2020. Due to this government-ordered shutdown, the Foundation qualified for the Employee Retention Credit ("ERC"). The ERC was provided for under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), including subsequent amendments. For the year 2020, the ERC was equal to 50% of qualified wages paid to employees during a qualifying quarter, capped at \$10,000 of qualified wages per employee. This payroll tax credit was available to offset certain employment taxes with any excess being refunded. The ERC for 2020, filed for in 2021, was estimated to be \$196,987 and is reported as a receivable on the statements of financial position and as contribution revenue on the statements of activities and changes in net assets.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - MERCHANDISE INVENTORIES

	<u>2021</u>	<u>2020</u>
Gifts	\$ 97,784	\$ 87,057
Books	53,750	62,598
Prints	4,307	5,010
Models	5,824	14,000
Donated items	9,808	12,852
Audio visual	40	1,337
Other	<u>21,686</u>	<u>16,827</u>
	<u>\$ 193,199</u>	<u>\$ 199,681</u>

NOTE 6 - PLEDGES RECEIVABLE

The Foundation records pledges receivable at present value using a present value rate ranging from 0.25% to 1.25%. Pledges receivable are \$28,214 and \$7,850 at December 31, 2021 and 2020. 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 pledges receivable over the next five years and thereafter:

2022	\$ 13,850
2023	6,000
2024	1,000
2025	2,000
2026	1,000
Thereafter	<u>5,000</u>
	28,850
Less discount to net present value	<u>636</u>
	<u>\$ 28,214</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - 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, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Money market securities	<u>\$ 1,793,744</u>	<u>\$ 2,056,904</u>
Common stocks	<u>14,887,476</u>	<u>12,449,036</u>
Mutual funds		
Large cap U.S. equity fund	381,227	301,899
Fixed income funds	<u>6,628,099</u>	<u>5,221,131</u>
Total mutual funds	<u>7,009,326</u>	<u>5,523,030</u>
Alternative investments	<u>1,033,935</u>	<u>832,212</u>
Total investments	<u>24,724,481</u>	20,861,182
Less current investments	<u>2,750,291</u>	<u>3,310,439</u>
	<u>\$ 21,974,190</u>	<u>\$ 17,550,743</u>

The following reflects the cost and estimated fair values of marketable securities held at December 31, 2021 and 2020. In addition, gross unrealized gains and unrealized losses are disclosed for the years 2021 and 2020.

	<u>2021</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Money market funds	\$ 1,793,744	\$ -	\$ -	\$ 1,793,744
Common stock	10,716,582	4,170,894	-	14,887,476
Mutual funds	6,706,549	302,777	-	7,009,326
Alternative investments	<u>836,609</u>	<u>197,326</u>	-	<u>1,033,935</u>
	<u>\$ 20,053,484</u>	<u>\$ 4,670,997</u>	<u>\$ -</u>	<u>\$ 24,724,481</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - INVESTMENTS - CONTINUED

	2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 2,056,904	\$ -	\$ -	\$ 2,056,904
Common stock	9,482,093	2,966,943	-	12,449,036
Mutual funds	5,137,423	385,607	-	5,523,030
Alternative investments	<u>795,479</u>	<u>36,733</u>	<u>-</u>	<u>832,212</u>
	<u>\$ 17,471,899</u>	<u>\$ 3,389,283</u>	<u>\$ -</u>	<u>\$ 20,861,182</u>

Unrealized gains of \$1,281,714 and \$1,786,907, and realized gains of \$1,289,741 and \$35,388 from sales of investments, are included in the statements of activities and changes in net assets for the years 2021 and 2020. Gross investment return for the years 2021 and 2020 totaled \$385,719 and \$359,896, which includes investment management fees of \$129,437 and \$97,684 and other investment expenses of \$21,601 and \$11,867 in net investment return in the statements of activities and changes in net assets for the years 2021 and 2020.

NOTE 8 - 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, 2021.

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.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - 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 2021 and 2020. The Foundation had no Level 3 financial instruments as of December 31, 2021 and 2020.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2021 and 2020:

	2021		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Assets			
Money market securities	\$ 1,793,744	\$ 1,793,744	\$ -
Common stocks	14,887,476	14,887,476	-
Mutual funds	7,009,326	7,009,326	-
Alternative investments	<u>1,033,935</u>	<u>-</u>	<u>1,033,935</u>
	<u>\$ 24,724,481</u>	<u>\$ 23,690,546</u>	<u>\$ 1,033,935</u>
	2020		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Assets			
Money market securities	\$ 2,056,904	\$ 2,056,904	\$ -
Common stocks	12,449,036	12,449,036	-
Mutual funds	5,523,030	5,523,030	-
Alternative investments	<u>832,212</u>	<u>-</u>	<u>832,212</u>
	<u>\$ 20,861,182</u>	<u>\$ 20,028,970</u>	<u>\$ 832,212</u>

NOTE 9 - PAYCHECK PROTECTION PROGRAM

During April 2020, the Foundation was granted a \$397,400 loan under the Paycheck Protection Program (“PPP”) administered by a Small Business Administration (“SBA”) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Foundation initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Foundation recognized \$397,400 as contribution revenue for the year ended December 31, 2020. The Foundation applied for and received notification of full forgiveness of the PPP loan obligation in January 2021.

As part of the Consolidated Appropriations Act, 2021 signed into law on December 27, 2020, Congress approved a second round of funding under the Paycheck Protection Program. During February 2021, the Foundation applied for and received a loan totaling \$397,400 under this program. This second round of funding under the PPP has terms similar to those described above. The Foundation applied for and received notification of full forgiveness of the PPP loan obligation in November 2021. The Foundation recognized \$397,400 as contribution revenue for the year ended December 31, 2021.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - 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 2021 and 2020, 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 \$98,794 and \$98,843 for the years 2021 and 2020.

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020 were comprised of the following:

	<u>2021</u>	<u>2020</u>
Purpose restrictions	<u>\$ 1,084,595</u>	<u>\$ 679,651</u>