



MEMORANDUM

Date: May 5, 2022

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: Jan Leshner 
County Administrator

Re: **October 31, 2021 Audit for Arizona Aerospace Foundation - Pima Air and Space Museum in Tucson and Titan Missile Museum**

As required by contract, we have received the results of the Independent Auditor's Report and Financial Statements for Arizona Aerospace Foundation. Pima County Finance has reviewed the report with the following comments:

- The auditors have issued a clean opinion.
- **Assets/Liabilities:** The balances in their cash and cash equivalents and receivables were able to easily cover their liabilities at the date of the report. The majority of their assets were comprised of \$13.2 million from their property and equipment and \$1.2 million from investments.
- **Net Assets:** Of their net assets without donor restrictions, just over \$14.5 million were unrestricted monies. The remaining net assets of \$1.1 million were donor restricted for specific purpose.
- **Statement of Activities:** There was a \$1.2 million increase in revenues without donor restrictions due to an increase in revenues for Admissions, Museum and Gift Stores, Restaurant and Paycheck Protection Program loan forgiveness.
- **Statement of Functional Expenses:** There was a slight increase in functional expenses of \$163,000, which can be attributed to higher collection expenses within the Program Services function.
- **Statement of Cash Flows:** Overall net cash decreased by \$56,000, which remained relatively flat from prior year.

In summary, both properties are in a favorable financial position coming out of the COVID-19 pandemic due to a strong board and supportive donor base. The attractions continue to grow attendance and expand their tours, exhibits and acquisitions which are world-class.

JKL/dym

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Michelle Campagne, Director, Finance and Risk Management Department
Diane Frisch, Director, Attractions & Tourism Department

ARIZONA AEROSPACE FOUNDATION

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

YEARS ENDED OCTOBER 31, 2021 AND 2020



ARIZONA AEROSPACE FOUNDATION

TABLE OF CONTENTS

	<i>Page</i>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	5
Statement of Functional Expense – 2021	7
Statement of Functional Expense – 2020	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	11

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arizona Aerospace Foundation
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Arizona Aerospace Foundation (a non-profit organization), which comprise the statements of financial position as of October 31, 2021 and 2020, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Aerospace Foundation as of October 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regier Cant Monroe, L.L.P.

January 26, 2022
Tucson, Arizona

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF FINANCIAL POSITION

October 31, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,206,558	\$ 1,263,449
Accounts receivable	44,598	25,811
Pledges receivable	200,000	-
Inventories - museum stores	183,470	242,673
Investments	1,240,000	1,920,000
Beneficial interest in remainder trust	57,047	56,447
Prepaid expenses	27,038	32,727
Property and equipment, net	13,164,164	13,934,864
Collections, net	<u>80,289</u>	<u>116,200</u>
Total assets	<u>\$ 16,203,164</u>	<u>\$ 17,592,171</u>

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF FINANCIAL POSITION

October 31, 2021 and 2020

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
LIABILITIES		
Accounts payable	\$ 65,983	\$ 102,359
Accrued expenses	197,562	138,964
Notes payable	-	38,420
Deferred revenue	9,027	8,365
Paycheck Protection Program note payable	347,845	389,762
	<u>620,417</u>	<u>677,870</u>
Total liabilities		
NET ASSETS		
Net assets without donor restrictions	14,510,405	14,614,164
Net assets with donor restrictions	1,072,342	2,300,137
	<u>15,582,747</u>	<u>16,914,301</u>
Total net assets		
Total liabilities and net assets	<u><u>\$ 16,203,164</u></u>	<u><u>\$ 17,592,171</u></u>

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF ACTIVITIES

For the Years Ended October 31, 2021 and 2020

	2021	2020
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Contributions	\$ 798,463	\$ 894,185
Admissions	2,270,227	1,710,122
Memberships	111,457	74,266
Contracted events	55,222	190,821
Program revenues	-	239,897
Museum stores	1,170,292	707,413
Restaurant	264,894	40,475
Investment gain (loss)	(600)	9,836
Grant income	-	406
Paycheck Protection Program loan forgiveness	389,762	-
Other income	52,346	15,583
	5,112,063	3,883,004
 Total revenue and support	 5,112,063	 3,883,004
 Net assets released from donor restrictions	 1,505,482	 1,589,884
 Total revenue and support without donor restrictions	 6,617,545	 5,472,888
EXPENSES		
Program services	5,895,097	5,538,023
Management and general	800,512	992,870
Fundraising	25,695	27,633
	6,721,304	6,558,526
 Total expenses	 6,721,304	 6,558,526
 CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 (103,759)	 (1,085,638)

(continued)

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended October 31, 2021 and 2020

	2021	2020
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Revenue, support and reclassifications		
Contributions	274,587	1,575,132
Grants	2,500	7,000
Net assets released from restrictions	(1,505,482)	(1,589,884)
Total revenue and support with donor restrictions	(1,228,395)	(7,752)
Non-operating activity		
Increase (decrease) in value of remainder trusts	600	(9,836)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(1,227,795)	(17,588)
CHANGE IN NET ASSETS	(1,331,554)	(1,103,226)
NET ASSETS, BEGINNING OF YEAR	16,914,301	18,017,527
NET ASSETS, END OF YEAR	\$ 15,582,747	\$ 16,914,301

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2021

	Program Services	Management and General	Fundraising	Total
Advertising and public relations	\$ 193,722	\$ -	\$ 10,196	\$ 203,918
Bank charges and credit card fees	121,178	6,462	-	127,640
Collections expense	1,165,176	54,249	-	1,219,425
Contracted events	19,144	-	-	19,144
Cost of AMARG tours	247	-	-	247
Cost of goods sold - museum stores	704,694	-	-	704,694
Depreciation and amortization	839,833	185,981	-	1,025,814
Education expense	2,132	-	-	2,132
Exhibit expense	87,069	1,355	-	88,424
Insurance	-	59,904	-	59,904
Interest	-	167	-	167
Membership expenses	4,992	-	263	5,255
Miscellaneous	14,527	8,008	1,186	23,721
Office expense	50,286	24,692	3,946	78,924
Payroll taxes and employee benefits	289,824	81,288	1,583	372,695
Postage and shipping	24,245	8,378	1,717	34,340
Printing	3,857	-	203	4,060
Professional services	54,901	32,979	-	87,880
Repairs and operations	240,578	146	-	240,724
Restoration expense	455,000	15,490	-	470,490
Salaries and wages	1,203,005	318,275	6,500	1,527,780
Travel and transportation	362	1,559	101	2,022
Utilities	278,761	1,579	-	280,340
Volunteer activities	182	-	-	182
390th grant expense	141,382	-	-	141,382
	<u>\$ 5,895,097</u>	<u>\$ 800,512</u>	<u>\$ 25,695</u>	<u>\$ 6,721,304</u>
Total				

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended October 31, 2020

	Program Services	Management and General	Fundraising	Total
Advertising and public relations	\$ 243,327	\$ 54,363	\$ 15,668	\$ 313,358
Bank charges and credit card fees	111,088	18,888	-	129,976
Collections expense	1,185,752	54,951	-	1,240,703
Contracted events	50,229	-	-	50,229
Cost of special events	8,292	-	-	8,292
Cost of AMARG tours	50,229	-	-	50,229
Cost of goods sold - museum stores	355,288	-	-	355,288
Depreciation and amortization	833,143	184,308	-	1,017,451
Education expense	2,136	40	-	2,176
Exhibit expense	52,846	-	-	52,846
Insurance	-	51,666	-	51,666
Interest	-	14,646	-	14,646
Membership expenses	878	-	46	924
Miscellaneous	33,044	14,396	1,138	48,578
Office expense	24,518	33,846	3,072	61,436
Payroll taxes and employee benefits	273,899	87,363	1,164	362,426
Postage and shipping	16,120	5,610	1,144	22,874
Printing	5,247	196	286	5,729
Professional services	49,951	54,363	-	104,314
Repairs and operations	204,020	90	-	204,110
Restoration expense	512,155	17,494	-	529,649
Salaries and wages	1,164,380	398,199	5,040	1,567,619
Travel and transportation	387	1,033	75	1,495
Utilities	239,315	1,418	-	240,733
Volunteer activities	14,468	-	-	14,468
390th grant expense	107,311	-	-	107,311
Total	\$ 5,538,023	\$ 992,870	\$ 27,633	\$ 6,558,526

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF CASH FLOWS

For the Years Ended October 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,331,554)	\$ (1,103,226)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,025,814	1,017,451
Realized and unrealized losses on investments	2,218	20,651
Contribution of securities	(49,862)	(2,247,433)
Proceeds from immediate sale of contributed securities	47,644	2,226,782
PPP loan forgiveness	(389,762)	-
Change in beneficial interest in remainder trusts	(600)	9,836
Changes in operating assets and liabilities		
Accounts receivable	(18,787)	37,270
Inventories - museum stores	59,203	6,953
Pledge receivable	(200,000)	-
Prepaid expenses	5,689	56,427
Accounts payable	(36,376)	23,157
Accrued expenses	58,598	(88,991)
Deferred revenue	662	(44,968)
	<u>(827,113)</u>	<u>(86,091)</u>
Net cash used by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	(219,203)	(623,457)
Purchase of investments	(1,000,000)	(2,880,000)
Proceeds from sale of investments	1,680,000	2,640,000
	<u>460,797</u>	<u>(863,457)</u>
Net cash provided (used) by investing activities		

(continued)

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION
STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended October 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(250,000)
Proceeds from Paycheck Protection Program note payable	347,845	389,762
Principal payments on notes payable	(38,420)	(48,760)
Net cash provided by financing activities	309,425	91,002
Net decrease in cash	(56,891)	(858,546)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,263,449	2,121,995
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,206,558	\$ 1,263,449
SUPPLEMENTARY DISCLOSURE		
Cash paid for interest	\$ 320	\$ 15,692

The Notes to Financial Statements are an integral part of these statements

ARIZONA AEROSPACE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Arizona Aerospace Foundation (the “Foundation”), dba Pima Air & Space Museum in Tucson and the Titan Missile Museum in Sahuarita, was formed in 1967 as the Tucson Air Museum Foundation. The Foundation opened its first facility on Valencia Road in 1976. Membership-supported and substantially volunteer-operated, the Foundation’s first efforts consisted almost entirely of collecting, preserving, and displaying historic aircraft.

The Pima Air & Space Museum has grown to become one of the largest private aerospace museums in the world, displaying more than 300 aircraft and 125,000 artifacts in five hangars across 80 acres. Visitors come from all over the world to view objects that span more than 100 years of aviation history, including an exquisite replica of the 1903 Wright Flyer, President John F. Kennedy’s Air Force One, and the fastest airplane ever built, the sleek SR-71 Blackbird. The Pima Air & Space Museum maintains its own aircraft restoration center and is also the exclusive provider of tours of the Aerospace Maintenance and Regeneration Group known as the “Boneyard,” located at Davis-Monthan Air Force Base. Additionally, the 390th Bombardment Group (Heavy) Memorial Museum is located on the grounds of the Pima Air & Space Museum.

In 1985, the Pima Air & Space Museum became the home of the Arizona Aviation Hall of Fame (“AAHOF”). Established by a joint proclamation of the Governor of Arizona, the Pima County Board of Supervisors, and the City of Tucson and located in the Dorothy Finley Space Gallery, AAHOF exhibits the histories of more than 80 Arizona men and women who have made significant contributions to the field of aviation and aerospace. AAHOF inductees include such luminaries as Senator Barry Goldwater, Senator John McCain, and Astronaut Frank Borman.

Opened in 1986, the Titan Missile Museum is a unique facility that is comprised of two parts: the Count Ferdinand von Galen Titan Missile Museum Education and Research Center and the Titan Missile National Historic Landmark. The Education and Research Center opened in November 2003. It houses the Click Family Exhibits Gallery, the Jim and Maxine Greenwood Aerospace Education Center, and a state-of-the-art archival area devoted to the historical documents and artifacts of the Titan II Intercontinental Ballistic Missile (“ICBM”) program.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Titan Missile National Historic Landmark was formerly Titan II launch complex 571-7. This former operational missile site was originally part of the 571st Strategic Missile Squadron, 390th Strategic Missile Wing, Davis-Monthan Air Force Base, Arizona. It is the sole remaining Titan II ICBM complex of the 54 that were “on alert” during the Cold War between 1963 and 1987. The site was designated a National Historic Landmark in April 1994, in recognition of the important role that the Titan II played in American history. It is further distinguished by the fact that it is one of only two ICBM sites in the entire world that have been preserved for the benefit of the public. Since its opening, more than one million people from around the world have toured this unique historic site.

The Foundation’s mission is to create unlimited horizons in aerospace education through the preservation and presentation of the history of flight. Consequently, both the Pima Air & Space Museum and the Titan Missile Museum have strong commitments to educating and inspiring tomorrow’s engineers, scientists, pilots, and astronauts. Every year thousands of school children are admitted to both museums free of charge. Going forward, the Foundation plans to continue expanding its collection of aircraft and improving its visitor amenities, while exploring new ways to foster an interest in the future of aviation technology and aerospace exploration in the young people of Southern Arizona.

The Foundation’s revenues are derived principally from museum admissions, concessions and store sales, and contributions.

Basis of Accounting

The Foundation’s financial statements are prepared using the accrual method of accounting and are presented on the basis of net assets with donor restrictions and net assets without donor restrictions in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less.

Bequests Receivable

The Foundation has been named a beneficiary in certain wills. Proceeds from these estates are not recognized until the passing of the donor and the expected amounts to be received can be reasonably estimated or known.

Property and Equipment

The Foundation capitalizes expenditures for buildings and equipment in excess of \$2,500 with a useful life of more than one year. Purchased buildings and equipment are carried at cost. Donated equipment is carried at the approximate fair value at the date of donation. Depreciation is provided for in amounts sufficient to relate the cost of buildings and equipment to operations over their estimated service lives. The straight-line method is used for all of the Foundation's assets over the following lives:

Vehicles	3-5
Tools and equipment	5-10
Furniture, fixtures and office	5-20
Buildings and improvements	10-40

Upon sale or retirement of depreciable properties, the related cost and accumulated depreciation are removed from the accounts. All gains or losses are reflected in revenue in the year of disposition.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 public support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods. Accordingly, certain costs have been allocated among program services, general and administrative and fundraising. The Foundation had not allocated costs to fundraising in prior years as management had determined that those costs were immaterial. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and Effort
Professional Fees	Time and Effort

Income Taxes

The Foundation is organized as an Arizona non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents are maintained at multiple financial institutions and, as a result, credit exposure to any one institution is limited. The Foundation has not experienced any losses on its cash and cash equivalents. At times, such amounts may be in excess of Federal Deposit Insurance Corporation insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents. Total uninsured cash balances at October 31, 2021 was approximately \$206,000.

The Foundation's investments do not represent significant concentrations of market risk as the Foundation's investment portfolio is diversified among issuers.

Concentration of Donations

One family donated approximately 5% and 91% of the charitable contributions and 1% and 41% of all revenues for 2021 and 2020, respectively. These gifts represent a significant portion of the total revenues. Management does not include these gifts as an annual budget item to rely on it for ongoing operations.

Accounts Receivable

The Foundation considers amounts billed due upon receipt. At October 31, 2021 and 2020, the Foundation deemed none of their receivables were uncollectible.

Inventories - Museum Stores

Inventories of museum stores are valued at the lower of cost or net realizable value, using a first-in, first-out method and consist of goods available for sale.

Investments

Investments are recorded at their fair market value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases and decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Presentation

Certain presentations in the financial statements for prior year amounts have been reclassified to provide comparability with current year amounts.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods, Facilities and Services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

The Foundation utilizes the services of many outside volunteers. No amounts have been recorded in the financial statements for donated services from volunteers as the criteria specified above were not met. Foundation volunteers contributed approximately 8,400 and 20,000 hours of services in the years ended October 31, 2021 and 2020, respectively.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

The Foundation recognizes the value of contributed services that either create or enhance a non-financial asset or services requiring specialized skills performed by persons possessing those skills.

Pima County Lease Agreement

The Foundation leases the Pima Air & Space Museum facility under an operating agreement dated June 1, 1996, from Pima County, Arizona, who leases it from the Bureau of Land Management. The lease agreement requires no payments and was extended on October 1, 2019, at which time the Foundation exercised an option for an additional 25-year period. The current agreement expires June 3, 2046, at which time the Foundation has the option to extend the agreement for an additional 25-year period. All Foundation owned airplanes, exhibits, and displays become the property of Pima County upon termination of the agreement with Pima Air & Space Museum.

The Foundation leases the Titan Missile Museum facility under an operating agreement dated January 7, 1986, from Pima County, Arizona, who leases it from the United States Air Force. That lease agreement requires no payments and was extended on April 30, 2016, at which time the Foundation exercised an option for an additional 5-year period. They will have the option to extend three more times in 5 year increments beginning April 30, 2021. The lease agreement specifies the sole use of the premises shall be operation and maintenance of a missile museum. The Air Force has the option to terminate the lease agreement with 90 a day notice. All Foundation owned exhibits and archives become the property of Pima County upon termination of the agreement with Titan Missile Museum.

Management has elected not to record the value of the rental as a non-cash donation and rent expense as it is not believed to be material.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Collections

The Foundation's collections, represent aircraft and related artifacts which were acquired by donation, purchase, or provided on loan from various military branches and agencies of the United States government, other museums and non-profit organizations, and individuals. The Accounting Standards division of the AICPA distinguishes between inexhaustible museum collections and exhaustible collections such as exhibits with a determined display life. The Foundation maintains both inexhaustible and exhaustible collections. It was the Foundation's policy to capitalize and record the fair market value of collection costs incurred prior to November 1, 2006. The cost of collections incurred prior to November 1, 2006, is being amortized over 20 years. Amortization expense of \$35,911 was recorded for the years ended October 31, 2021 and 2020, respectively.

Purchases of collection items subsequent to November 1, 2006, are recorded as decreases in net assets without donor restriction in the year in which the items are acquired on the Foundation's statement of functional expenses. While collections expense includes the periodic acquisition of planes or other inexhaustible pieces, the collection expense also includes operational items such as transportation, spare parts, and restoration expense for pieces not yet received. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. No proceeds from deaccession or insurance recoveries noted for October 31, 2021 and 2020. Direct restoration costs are expensed as incurred. Collection expense for the years ended October 31, 2021 and 2020, were \$1,219,425 and \$1,240,703, respectively.

Advertising Costs

The Foundation expenses all advertising and related costs as incurred. Advertising expense was \$203,918 and \$313,358 for the years ended October 31, 2021 and 2020, respectively.

Change in Accounting Principle – Revenue Recognition

In the year ended October 31, 2021 the Foundation adopted Accounting Standards Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers* (Topic 606), as amended, as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle - Fair Value Disclosure and Measurements

Standards Update (ASU) 2018-13, Fair Value Measurements: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements. This ASU modifies the disclosure requirements for fair value measurements. Those modifications include the removal and addition of disclosure requirements, as well as clarifying specific disclosure requirements. As a result of implementation, the Society noted the following impacts:

1. The policy for timing of transfers between levels was removed.
2. The valuation process for Level 3 fair value measurements was removed.
3. The changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period has been removed.
4. The previous rollforward for Level 3 fair value measurements has been modified to include only purchases, sales, transfers in and transfers out.

During the year ended October 31, 2021 the Foundation has a beneficial interest in a remainder trust reported at fair value using Level 3 Fair Value Measurement. Under the adopted provisions the Foundation adjusted the note disclosure to conform to the updated standards.

Revenue & Revenue Recognition

Contributions, are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. Contributions are recorded as unrestricted or donor-restricted support, depending on the nature of any donor restrictions. Gifts of cash and other assets are presented as restricted if they are received with donor stipulations that limit the use of the donated assets. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Foundation recognizes admissions revenue as unrestricted support at the time of entry.

Event venue revenue is considered an exchange transaction and is recognized as income in the period in which the event occurs. Amounts received for the following year's events are recorded as deferred revenue.

Membership revenue is recognized upon receipt as management has determined that the earning process is complete at that time. The Foundation has no subsequent obligations to the members and the membership fee are non-refundable.

Gifts-in-kind are recorded at fair market value as of the date received.

The Organization recognizes revenue from the gift shop and restaurant sales at the point of sale.

(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unconditional promises to give are recorded at net realizable value. Those that are expected to be received in future years are recorded at the present value of their estimated future cash flows.

Recent Accounting Pronouncements

- Leases

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), that will supersede the current lease requirements. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the consolidated balance sheet. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending October 31, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

2. OPERATING LEASES

The Foundation has leases for equipment under operating lease agreements. The leases have various terms, monthly payment amounts, and expiration dates through 2025. Lease expense for the years ended October 31, 2021 and 2020 was \$8,567 and \$9,764, respectively.

Future payments under the operating leases are as follows for the years ending October 31:

2022	\$ 5,693
2023	827
2024	827
2025	827
2026	<u>138</u>
Total	<u>\$ 8,312</u>

(continued)

3. AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at October 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,206,558	\$ 1,263,449
Accounts and pledges receivable	244,598	25,811
Inventories- museum stores	183,470	242,673
Investments	<u>1,240,000</u>	<u>1,920,000</u>
Total financial assets	<u>2,874,626</u>	<u>3,451,933</u>
Less amounts not available in one year:		
Net assets with donor restrictions	1,072,342	2,300,137
Less net assets where restrictions will be met in less than one year	<u>(1,000,000)</u>	<u>(750,000)</u>
Total financial assets not available in one year	<u>72,342</u>	<u>1,550,137</u>
Plus borrowing capacity on line of credit	<u>300,000</u>	<u>300,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,102,284</u>	<u>\$ 2,201,796</u>

The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,660,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

The Board of Directors have internally designated a portion of its the net assets. However, those resources are available for general operating needs of the Foundation.

(continued)

4. PLEDGES RECEIVABLE

Pledges receivable at October 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 100,000	\$ -
Receivable in one to five years	<u>100,000</u>	<u>-</u>
Total	<u>\$ 200,000</u>	<u>\$ -</u>

Pledges receivable consist of one pledge which is donor restricted and is included in net assets with restrictions. The value of the pledge has not been discounted, as the pledge was fully collected subsequent to year-end.

5. INVESTMENTS

The Foundation maintains certain investment accounts. The future proceeds from these accounts are intended to fund capital expansion of museum facilities and to support the operations of the Foundation. The Foundation's investment objective is the preservation of capital. Accordingly, these investments are comprised of highly liquid, low risk instruments, including certificates of deposit and U.S. government bonds. Investments consisted of certificate of deposit in the amounts of \$1,240,000 and \$1,920,000 at October 31, 2021 and 2020, respectively.

Interest income on investments was \$2,218 and \$20,651 for 2021 and 2020, respectively. This amount is reported net of other realized and unrealized gain and losses on the face of the financial statements for total gain (loss) of \$(600) and \$9,836 for 2021 and 2020, respectively.

6. PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

On April 13, 2020, the Foundation qualified for and received 2 loans pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act. from a qualified lender for an aggregate principal amount of \$389,762. The Foundation is accounting for the PPP loans in accordance with FASB ASC 470, Debt and has recorded the PPP loans as debt and recognizes a gain on extinguishment when the Foundation has been legally released as the primary obligor through forgiveness approval from the lender.

On January 26, 2021, the Foundation was notified that their application for forgiveness was fully approved by the SBA in connection with the first PPP loan. The forgiveness of the debt in the amount of \$389,762 was recognized as a gain on extinguishment during the fiscal year ending October 31, 2021.

(continued)

6. PAYCHECK PROTECTION PROGRAM NOTE PAYABLE (continued)

On March 16, 2021, the Foundation received a second Payroll Protection Program loan through a financial institution in the amount of \$347,845. The Foundations has not applied for forgiveness of the loan amount. The loan may be forgivable in whole or in part. Management believes that the loan will be completely forgiven. Under current regulations, for any portion that is not forgiven, the Company will have to repay it over a five-year period beginning in April 2022. The loan is unsecured and bears interest at 1%. The full amount of the loan is reported as a liability on the statement of financial position at October 31, 2021.

7. LINE OF CREDIT

The Foundation has a line of credit arrangement with a bank providing for borrowings up to \$300,000 with a variable interest rate (5% at both October 31, 2021 and 2020), renewable annually. There was no outstanding balance as of the year ended October 31, 2021. The B-24J historical aircraft serves as collateral for the line of credit.

8. RELATED PARTIES

In the normal course of business the Foundation enters into transactions with businesses related to various board members. Management believes that these transactions are completed at arm's length and are within the normal scope of business.

Donations of Board members totaled \$30,500 for the year ended October 31, 2021 (\$18,750 for 2020).

9. RETIREMENT PLANS

The Foundation maintains a defined contribution 403(b) retirement plan. The plan was effective January 1, 2012 and is available to all eligible employees. Employees may defer a portion of their salary within the limits set forth by the Internal Revenue Service. The 403(b) investments are participant-directed. The Foundation may make future contributions to the 403(b) at the discretion of the board of directors, but at present, has not expressed any intent to do so.

10. CONTINGENCIES

The Foundation is subject to claims and litigation incidental to its operation, including potential personal injury claims filed by visitors and employment related claims filed by employees and former employees. The Foundation does not believe the outcome of any such claims would be material to its financial position.

(continued)

10. CONTINGENCIES (continued)

The United States is presently in the midst of an ongoing global health emergency related to a virus, commonly known as Novel Coronavirus (“COVID-19”). The overall consequences of COVID-19 on a global, national, regional, and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Foundation and its future results and financial position is not presently determinable.

11. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 20,409,181	\$ 20,321,728
Land	2,641,912	2,641,912
Furniture and fixtures	1,197,395	1,156,040
Tools and equipment	909,576	905,009
Vehicles	418,844	418,844
Software	50,025	50,025
Construction in process	<u>103,909</u>	<u>18,081</u>
Total	25,730,842	25,511,639
Less accumulated depreciation	<u>(12,566,678)</u>	<u>(11,576,775)</u>
Property and equipment, net	<u>\$ 13,164,164</u>	<u>\$ 13,934,864</u>

Depreciation expense of \$989,903 and \$981,540 was recognized during 2021 and 2020, respectively.

12. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consists of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair values using Level 1 input because they generally provide the most reliable evidence of fair value.

(continued)

12. FAIR VALUE MEASUREMENTS (continued)

Level 1 Fair Value Measurements are based on quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the assets is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full-term of the asset.

Level 3 Fair Value Measurements are based on unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the assets at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the (including assumption about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

Fair value measurements were reported based on the following:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
October 31, 2021				
Certificates of deposit	\$ 1,240,000	\$ -	\$ 1,240,000	\$ -
Beneficial interests in remainder trusts	<u>57,047</u>	<u>-</u>	<u>-</u>	<u>57,047</u>
Total	<u>\$ 1,297,047</u>	<u>\$ -</u>	<u>\$ 1,240,000</u>	<u>\$ 57,047</u>
October 31, 2020				
Certificates of deposit	\$ 1,920,000	\$ -	\$ 1,920,000	\$ -
Beneficial interests in remainder trusts	<u>56,447</u>	<u>-</u>	<u>-</u>	<u>56,447</u>
Total	<u>\$ 1,976,447</u>	<u>\$ -</u>	<u>\$ 1,920,000</u>	<u>\$ 56,447</u>

(continued)

13. NOTES PAYABLE

The Foundation has the following note payable at October 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Note payable to bank, monthly payments of \$4,370, including interest at 5.56% per year, matures July 2021; collateralized by aircraft.	\$ -	\$ 38,420
Total	<u>\$ -</u>	<u>\$ 38,420</u>

14. NET ASSETS

Net assets with temporary donor restrictions consist of the following for the year ended October 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Reclass</u>	<u>Ending Balance</u>
Capital improvements	\$ 32,500	\$ -	\$ -	\$ -	\$ 32,500
Charitable remainder trusts	67,936	-	-	-	67,936
Education	4,808	2,525	-	-	7,333
Facility improvements - Titan	7,806	-	-	-	7,806
Facility improvements - Pima	282	-	-	-	282
Exhibits	21,405	49,862	(27,096)	-	44,171
Restoration and acquisition	1,808,768	25,300	(1,218,187)	-	615,881
AirMel plan and sponsor	241,322	-	(80,000)	-	161,322
Matching grant		200,000	(180,199)	-	19,801
Other	<u>4,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,169</u>
Total	<u>\$ 2,188,996</u>	<u>\$ 277,687</u>	<u>\$ (1,505,482)</u>	<u>\$ -</u>	<u>\$ 961,201</u>

Net assets with donor restrictions were as follows for the year ended October 31, 2021:

Temporary	\$ 961,201
Permanent	<u>111,141</u>
Total net assets with donor restrictions	<u>\$ 1,072,342</u>

(continued)

14. NET ASSETS (continued)

Net assets without donor restrictions were as follows for the year ended October 31, 2021:

Undesignated	\$ 8,928,967
Board designated	<u>5,581,438</u>
Total net assets without donor restrictions	<u>\$ 14,510,405</u>

Net assets with temporary donor restrictions consists of the following for the year ended October 31, 2020:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Reclass</u>	<u>Ending</u> <u>Balance</u>
Capital improvements	\$ 32,500	\$ -	\$ -	\$ -	\$ 32,500
Charitable remainder trusts	67,936	-	-	-	67,936
Education	3,554	7,000	(5,746)	-	4,808
Facility improvements - Titan	40,799	-	(32,993)	-	7,806
Facility improvements - Pima	500	-	(218)	-	282
Exhibits	-	26,355	(4,950)	-	21,405
Restoration and acquisition	1,735,804	1,538,941	(1,465,977)	-	1,808,768
AirMel plan and sponsor	321,322	-	(80,000)	-	241,322
Other	<u>4,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,169</u>
Total	<u>\$ 2,206,584</u>	<u>\$ 1,572,296</u>	<u>\$ (1,589,884)</u>	<u>\$ -</u>	<u>\$ 2,188,996</u>

Net assets with donor restrictions were as follows for the year ended October 31, 2020:

Temporary	\$ 2,188,996
Permanent	<u>111,141</u>
Total net assets with donor restrictions	<u>\$ 2,300,137</u>

Net assets without donor restrictions were as follows for the year ended October 31, 2020:

Undesignated	\$ 8,425,960
Board designated for specific purpose	<u>6,188,204</u>
Total net assets without donor restrictions	<u>\$ 14,614,164</u>

The beneficial interest in charitable remainder trusts are irrevocable and are for unrestricted use upon receipt of funds. The net change in the value of the charitable remainder trusts is reported as an addition or subtraction to the net asset with donor restrictions balance.

(continued)

14. NET ASSETS (continued)

At October 31, 2021 and 2020, donor-imposed permanently restricted net assets were \$111,141, and are restricted to investments in perpetuity. The Mach 3 Society endowment fund supports the general operations of the Foundation.

The Foundation's management of this fund is subject to compliance with the Uniform Prudent Management of Institutional Funds Act, as adopted by the State of Arizona. Based on this guidance, the Mach 3 Society endowment is classified as permanently restricted to the extent of the original value of gifts donated to the fund. Any earnings on the fund are to be accounted for as unrestricted funds by the Foundation.

Spending from the permanently restricted income endowment funds is limited to interest and dividends earned in the previous calendar year on that fund.

Investment objectives of the Foundation are to manage the portfolio in a manner that will maximize the benefits intended by donors; provide perpetual financial support for the Foundation; and achieve a total return over time sufficient to preserve and increase the purchasing power of the assets while safeguarding those assets. The Foundation believes this goal can best be achieved by managing the unrestricted, restricted income endowment, and endowment portion of the funds through investment grade interest bearing securities.

Net assets in the endowment fund consisted of the following at October 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Mach 3 Society endowment fund	<u>\$ 111,141</u>	<u>\$ -</u>	<u>\$ 111,141</u>

Net assets in the endowment fund consisted of the following at October 31, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Mach 3 Society endowment fund	<u>\$ 111,141</u>	<u>\$ -</u>	<u>\$ 111,141</u>

15. SIGNIFICANT ESTIMATES

The functional allocation of expenditures is estimated based on salaries and estimated levels of effort.

Management's estimate of the useful lives of the fixed assets acquired was based on management's experience with similar assets.

(continued)

16. CONTRACT COMMITMENTS

In 2014, the Foundation entered into two contracts related to the restoration of a P-38 and P-47 aircraft. The total contract cost is \$1,250,000, of which \$1,077,900 had been paid as of October 31, 2021. The remaining commitment of the Foundation is \$172,100.

In 2019, the Foundation entered into a contract related to the restoration and purchase of the SC 330 'F-HMEL' aircraft. The total cost is \$525,000, of which \$315,000 has been paid as of October 31, 2021. The remaining commitment of the Foundation is \$210,000.

17. BENEFICIAL INTEREST IN REMAINDER TRUST

The Foundation is the beneficiary of a charitable remainder trust. Under the terms of the trust agreement, the Foundation is one of two beneficiaries. The Foundation has a 75% interest in the net present value of the estimated proceeds. The estimated net present value of the beneficial interest as of October 31, 2021 and 2020 was \$57,047 and \$56,447, respectively.

18. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 26, 2022, which is the date the financial statements were available to be issued.