

**THE ACADEMY OF MODEL AERONAUTICS, INC.
AND AFFILIATE**

CONSOLIDATED AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

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YEARS ENDED DECEMBER 31, 2021 AND 2020

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Academy of Model Aeronautics, Inc. and Affiliate
Muncie, Indiana

Opinion

We have audited the accompanying consolidated financial statements of **The Academy of Model Aeronautics, Inc. and Affiliate** (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **The Academy of Model Aeronautics, Inc. and Affiliate** 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 Consolidated Financial Statements section of our report. We are required to be independent of **The Academy of Model Aeronautics, Inc. and Affiliate** 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated 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 consolidated 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 consolidated 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 Academy of Model Aeronautics, Inc. and Affiliate'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **The Academy of Model Aeronautics, Inc. and Affiliate'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 audits.



Richmond, Indiana
August 2, 2022

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 4,286,195	\$ 3,798,931
Receivables, net	27,022	80,810
Merchandise inventory - at cost	75,758	76,177
Prepaid expenses	632,613	601,718
Investments	8,957,149	7,067,364
Property and equipment, net	<u>4,005,351</u>	<u>4,413,060</u>
	<u>\$ 17,984,088</u>	<u>\$ 16,038,060</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 282,694	\$ 301,683
Competition funds escrow	254,919	187,445
Deferred membership revenue	6,121,221	5,862,097
Other deferred revenue	<u>111,572</u>	<u>86,496</u>
	<u>6,770,406</u>	<u>6,437,721</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	4,924,898	3,338,025
Designated by the Executive Council for contingencies	3,940,000	3,940,000
Designated by the Executive Council for club legal defense	28,468	28,468
Designated by the Executive Council for natural disasters	117	117
Designated by the Executive Council for scholarships	30,526	30,526
Designated by the Executive Council for endowment	<u>326,555</u>	<u>319,352</u>
	<u>9,250,564</u>	<u>7,656,488</u>
With Donor Restrictions		
Purpose restrictions	1,857,878	1,840,455
Perpetual in nature	<u>105,240</u>	<u>103,396</u>
	<u>1,963,118</u>	<u>1,943,851</u>
	<u>11,213,682</u>	<u>9,600,339</u>
	<u>\$ 17,984,088</u>	<u>\$ 16,038,060</u>

See notes to consolidated financial statements.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Memberships	\$ 7,053,600	\$ -	\$ 7,053,600
Club charter fees	261,835	-	261,835
Event sanctions and insurance	44,320	-	44,320
Net supply, souvenir and merchandise sales	103,877	-	103,877
Model Aviation advertising and subscriptions	439,666	-	439,666
National Championship	24,815	-	24,815
Park Pilot magazine	18,149	-	18,149
Net investment return	1,749,378	(27,662)	1,721,716
Contributions and grants	157,650	85,657	243,307
Paycheck Protection Program loan forgiveness income	521,533	-	521,533
Other revenue	448,432	-	448,432
Net assets released from restrictions	<u>38,728</u>	<u>(38,728)</u>	<u>-</u>
Total Revenue and Support	<u>10,861,983</u>	<u>19,267</u>	<u>10,881,250</u>
FUNCTIONAL EXPENSES			
Program expenses	6,303,163	-	6,303,163
Administrative expenses	2,845,203	-	2,845,203
Fundraising expenses	<u>119,541</u>	<u>-</u>	<u>119,541</u>
Total Functional Expenses	<u>9,267,907</u>	<u>-</u>	<u>9,267,907</u>
INCREASE IN NET ASSETS	1,594,076	19,267	1,613,343
NET ASSETS			
Beginning of year	<u>7,656,488</u>	<u>1,943,851</u>	<u>9,600,339</u>
End of year	<u>\$ 9,250,564</u>	<u>\$ 1,963,118</u>	<u>\$ 11,213,682</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Memberships	\$ 6,883,260	\$ -	\$ 6,883,260
Club charter fees	269,994	-	269,994
Event sanctions and insurance	36,469	-	36,469
Net supply, souvenir and merchandise sales	73,517	-	73,517
Model Aviation advertising and subscriptions	517,193	-	517,193
National Championship	2,770	-	2,770
Park Pilot magazine	21,267	-	21,267
Net investment return	1,356,247	(13,542)	1,342,705
Contributions and grants	240,151	537,834	777,985
Paycheck Protection Program loan forgiveness income	643,800	-	643,800
Other revenue	311,732	-	311,732
Net assets released from restrictions	<u>89,934</u>	<u>(89,934)</u>	<u>-</u>
Total Revenue and Support	<u>10,446,334</u>	<u>434,358</u>	<u>10,880,692</u>
FUNCTIONAL EXPENSES			
Program expenses	6,294,358	-	6,294,358
Administrative expenses	2,689,138	-	2,689,138
Fundraising expenses	<u>127,683</u>	<u>-</u>	<u>127,683</u>
Total Functional Expenses	<u>9,111,179</u>	<u>-</u>	<u>9,111,179</u>
INCREASE IN NET ASSETS	1,335,155	434,358	1,769,513
NET ASSETS			
Beginning of year	<u>6,321,333</u>	<u>1,509,493</u>	<u>7,830,826</u>
End of year	<u>\$ 7,656,488</u>	<u>\$ 1,943,851</u>	<u>\$ 9,600,339</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Expenses	Administrative Expenses	Fundraising Expenses	Total
Salaries including contract services	\$ 1,912,886	\$ 758,725	\$ 51,927	\$ 2,723,538
Benefits and payroll taxes	555,664	228,149	5,164	788,977
Model Aviation direct costs	1,143,301	-	-	1,143,301
Park Pilot magazine direct costs	34,040	-	-	34,040
Education	249,224	-	-	249,224
Scholarship program	67,360	-	-	67,360
Membership processing costs	318,379	-	-	318,379
Utilities	12,258	110,321	-	122,579
Marketing	176,547	176,547	-	353,094
Office expenses and telephone	124,049	3,625	16,579	144,253
Postage and freight	11,143	100,283	-	111,426
Bank charges and fees	143,745	32,728	7,422	183,895
Staff travel	2,316	19,183	5,272	26,771
Equipment maintenance	25,225	227,022	-	252,247
Grounds maintenance	22,634	203,701	-	226,335
Professional fees	265,301	99,897	6,000	371,198
Insurance	13,046	117,415	-	130,461
Insurance and claims expense	1,051,155	-	-	1,051,155
FAI programs	64,974	-	-	64,974
NAA divisional fees	34,000	-	-	34,000
Internet expense	-	84,361	-	84,361
Miscellaneous	4,591	41,326	27,177	73,094
Officer services and committees	15,400	138,596	-	153,996
Depreciation and amortization	<u>55,925</u>	<u>503,324</u>	<u>-</u>	<u>559,249</u>
Total Expenses	<u>\$ 6,303,163</u>	<u>\$ 2,845,203</u>	<u>\$ 119,541</u>	<u>\$ 9,267,907</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program Expenses	Administrative Expenses	Fundraising Expenses	Total
Salaries including contract services	\$ 1,869,067	\$ 741,345	\$ 52,507	\$ 2,662,919
Benefits and payroll taxes	517,157	212,339	4,806	734,302
Model Aviation direct costs	1,190,637	-	-	1,190,637
Park Pilot magazine direct costs	38,098	-	-	38,098
Education	154,736	-	-	154,736
Scholarship program	51,500	-	-	51,500
Membership processing costs	341,832	-	-	341,832
Utilities	11,279	101,511	-	112,790
Marketing	146,663	146,663	-	293,326
Office expenses and telephone	124,956	3,651	7,161	135,768
Postage and freight	8,654	77,877	-	86,531
Bank charges and fees	143,745	23,760	3,378	170,883
Staff travel	1,490	12,337	130	13,957
Equipment maintenance	11,303	101,725	-	113,028
Grounds maintenance	22,499	202,492	-	224,991
Professional fees	431,568	125,489	3,975	561,032
Insurance	13,010	117,092	-	130,102
Insurance and claims expense	1,048,927	-	-	1,048,927
FAI programs	58,831	-	-	58,831
NAA divisional fees	34,000	-	-	34,000
Internet expense	-	153,212	-	153,212
Miscellaneous	6,190	55,710	55,726	117,626
Officer services and committees	13,297	119,668	-	132,965
Depreciation and amortization	54,919	494,267	-	549,186
Total Expenses	<u>\$ 6,294,358</u>	<u>\$ 2,689,138</u>	<u>\$ 127,683</u>	<u>\$ 9,111,179</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Increase in net assets	\$ 1,613,343	\$ 1,769,513
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	559,249	549,186
Unrealized gain on investments	(1,296,792)	(1,232,736)
Gain on sale of investments	(405,039)	(70,311)
Donated investments	-	(2,624)
Paycheck Protection Program loan forgiveness income	(521,533)	(643,800)
	<u>(50,772)</u>	369,228
Changes in operating assets and liabilities:		
Receivables	20,590	25,612
Merchandise inventory - at cost	419	3,710
Prepaid expenses	(30,895)	26,350
Accounts payable and accrued expenses	14,211	22,376
Competition funds escrow	67,474	75,701
Deferred membership revenue	259,124	(21,309)
Other deferred revenue	25,076	5,676
	<u>305,227</u>	<u>507,344</u>
Net Cash and Cash Equivalents Provided by Operating Activities		
	<u>305,227</u>	<u>507,344</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(151,541)	(128,516)
Proceeds from sale of investments	977,427	1,233,076
Purchases of investments	(1,165,382)	(1,011,146)
	<u>(339,496)</u>	<u>93,414</u>
Net Cash and Cash Equivalents Provided (Used) by Investing Activities		
	<u>(339,496)</u>	<u>93,414</u>
FINANCING ACTIVITIES		
Borrowings on Paycheck Protection Program loan	521,533	643,800
	<u>487,264</u>	1,244,558
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>487,264</u>	1,244,558
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,798,931</u>	<u>2,554,373</u>
End of year	<u>\$ 4,286,195</u>	<u>\$ 3,798,931</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 197</u>	<u>\$ 382</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy of Model Aeronautics, Inc. (the "Academy") was incorporated in 1966 under the laws of the District of Columbia. The Academy's primary objective is to promote the educational and scientific aspects of model aviation. During 2012, the Academy formed the Academy of Model Aeronautics Foundation, Inc. (the "Foundation"). The Foundation is a supporting organization of the Academy and received its exemption approval from the Internal Revenue Service in 2013, and commenced operations in 2014.

Accounting Methods - The Academy maintains its accounts on the accrual basis of accounting and accordingly reflects all significant receivables, payables, and other liabilities.

Basis of Accounting - The Academy's consolidated financial statements have been prepared in accordance with accounting standards that require, among other things, reporting of the changes in and total of each of the net asset classes, based upon donor restrictions, if applicable. Net assets are to be classified as net assets without donor restrictions or net assets with donor restrictions.

The consolidated financial statements include the accounts of **The Academy of Model Aeronautics, Inc.** and its affiliated organization, the Academy of Model Aeronautics Foundation, Inc. Inter-organization balances and transactions have been eliminated in the consolidated financial statements.

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

Concentration of Credit and Custodial Risk - Financial instruments that potentially subject the Academy to credit risk consist principally of advertising receivables. In addition, the Academy had funds on deposit with a financial institution in excess of the federally insured limit throughout the year and at December 31, 2021.

Cash Equivalents - The Academy considers all liquid investments with original maturities of three months or less to be cash equivalents.

Allowance for Doubtful Accounts - The Academy uses the allowance method of accounting to record uncollectible accounts. An allowance is made for possible losses on collection of accounts based on periodic reviews of credit risks. When accounts are determined to be uncollectible, they are charged off against the allowance. Management deems an account to be uncollectible when all collection efforts have failed or the customer is bankrupt.

Merchandise Inventory - The Academy values its merchandise inventory at cost on a first-in, first-out basis.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position.

Unrealized gains of \$1,296,792 and \$1,232,736 have been included as a component of net investment return in the accompanying consolidated statements of activities for the years 2021 and 2020.

Unrealized gains and losses on investments are reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations, or by law.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment - Land, buildings and improvements, and equipment are carried at cost. Routine repairs and maintenance are charged to expense as incurred. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The Academy's policy is to capitalize expenditures in excess of \$1,000 for property and equipment.

The Academy reviews for impairment of long-lived assets in accordance with accounting standards. These standards require organizations 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.

Museum Collection - The Academy does not capitalize its museum collection held for public exhibition and education. The Academy's policy requires the collection to be protected, unencumbered, and preserved. The proceeds from sales of collection items are used to acquire other items for the collection or for the direct care of existing collections. The Academy defines direct care of collections as any activity that involves the protection and preservation of the collection. Contributed collection items or gains from the sale of collection items are not recognized as revenue. The Academy's collection was insured for \$1,668,800 at December 31, 2021 and 2020, which management estimates is approximately its replacement cost.

Competition Funds - The Academy sponsors several types of national and international flying competitions, which have funds maintained by the Academy, but under the control of the appropriate team selection committee. The funds are generated by the entry fees of program participation, donations and other sources. The total of these funds was \$254,919 and \$187,445 at December 31, 2021 and 2020, and are reflected as a liability in the accompanying consolidated statements of financial position.

Contributed Revenue Recognition - All contributions are considered available for the Academy's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as support with donor restrictions and increase the respective class of net assets. When a donor 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 consolidated statements of activities as net assets released from restrictions.

Membership Development - Membership development costs have been included in the accompanying consolidated statements of functional expenses. Membership development costs for the years 2021 and 2020 were \$965,625 and \$968,486.

Advertising Expense - The advertising and promotional costs of the Marketing Division are expensed as incurred. Total advertising and promotional costs, excluding those direct production costs related to the sale of magazine advertising space, were \$353,094 and \$293,326 for the years 2021 and 2020.

Income Taxes - The Academy and the Foundation operate as nonprofit organizations and have received exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy is, however, subject to unrelated business income tax on magazine advertising, merchandise sales, and internet advertising. During 2021 and 2020, the Academy recognized unrelated business losses with no federal or state taxes due. The federal net operating loss carryforward was \$634,068 and \$599,969 at December 31, 2021 and 2020. No deferred tax asset has been recognized, as the Academy deems a 100% valuation allowance is necessary to reflect the deferred tax asset at its estimated net realizable value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounting for Uncertainty in Tax Positions - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Academy's and 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 consolidated 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 Academy or Foundation have taken any material uncertain tax positions, including any position that would place the Academy's or Foundation's exempt status in jeopardy, as of December 31, 2021.

Recently Issued Accounting Standards Not Yet Adopted - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require the recognition of right-to-use assets and lease liabilities for leases previously classified as operating leases by lessees. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2022. The Academy is currently in the process of evaluating the impact of adoption of these standards on the consolidated financial statements.

Subsequent Events - In preparing these consolidated financial statements, the Academy has evaluated events and transactions for potential recognition or disclosure through August 2, 2022, the date the consolidated financial statements were available to be issued.

NOTE 2 - REVENUE RECOGNITION

Memberships

The Academy derives its revenue primarily from memberships. Memberships are sold on an annual, multi-year, or life-time basis, and revenue is recognized on a straight-line basis over the life of the membership based on membership renewal date or anniversary date except for life memberships, which are recognized when received. Management believes that the difference between the revenue recognition for life memberships, as compared to that required under generally accepted accounting principles, is not material to the consolidated financial statements. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits as the Academy satisfies the performance obligation. Revenue is recognized when the services are delivered to its customers, in an amount that reflects the consideration the Academy expects to be entitled to in exchange for their services. Amounts received in advance of being recognized are reflected as deferred membership revenue in the accompanying consolidated statements of financial position. 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.

The Academy's memberships are generally nonrefundable with rare exceptions. The Academy's standard payment terms are typically due upon signing up for a membership. The Academy does not have any significant financing components.

Revenue from performance obligations satisfied over time consists of memberships where members receive a magazine and liability insurance coverage over the term of the membership.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - REVENUE RECOGNITION - CONTINUED

Club Charter Fees

The Academy also derives its revenue from club charter fees. Club charter fees are charged to flying clubs that want to be chartered with the Academy. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits as the Academy satisfies the performance obligation. Revenue is recognized when the services are delivered to its customers, in an amount that reflects the consideration the Academy expects to be entitled to in exchange for their services. Amounts received in advance of being recognized are reflected as other deferred revenue in the accompanying consolidated statements of financial position. 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.

The Academy's charter fees are nonrefundable. The Academy's standard payment terms are typically due upon signing up to be a chartered member. The Academy does not have any significant financing components.

Revenue from performance obligations satisfied over time consists of club charter fees where members receive liability insurance coverage over the term of the membership.

Supply, Souvenir and Merchandise Sales

The Academy also derives revenue from supply, souvenir and merchandise sales. Revenue is derived from customers purchasing these items from the Academy's gift shop and website. Revenue is recognized when control of the goods is transferred to its customers, in an amount that reflects the consideration the Academy expects to be entitled to in exchange for those goods. Control transfers to the customer at the time of sale. Incidental items that are immaterial in the context of the sale are recognized as expense. Costs incurred to obtain a sale are expensed as incurred.

The Academy's standard payment terms are typically due upon purchase. The Academy does not have any significant financing components.

Revenue from performance obligations satisfied at a point in time consists of supply, souvenir and merchandise sales.

Model Aviation Advertising and Subscriptions

The Academy also derives its revenue from selling advertising and subscriptions in its Model Aviation magazine. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits as the Academy satisfies the performance obligation. Revenue is recognized when the services are delivered to its customers, in an amount that reflects the consideration the Academy expects to be entitled to in exchange for their services. Amounts received in advance of being recognized are reflected as other deferred revenue in the accompanying consolidated statements of financial position. 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.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - REVENUE RECOGNITION - CONTINUED

The Academy's advertising contracts are cancellable at any time by either party, with proper notice as defined in each contract. The Academy's standard payment terms are typically due 30 days from invoice date. The Academy's subscriptions are nonrefundable. The Academy does not have any significant financing components.

Revenue from performance obligations satisfied over time consists of Model Aviation advertising and subscriptions where advertisers and subscribers receive benefits each time the magazine is published.

Disaggregation of Revenue from Contracts with Customers

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied over time:		
Memberships	\$ 7,053,600	\$ 6,883,260
Club charter fees	261,835	269,994
Model Aviation advertising and subscriptions	<u>439,666</u>	<u>517,193</u>
	7,755,101	7,670,447
Performance obligations satisfied at a point in:		
Supply, souvenir and merchandise sales	<u>103,877</u>	<u>73,517</u>
	<u>\$ 7,858,978</u>	<u>\$ 7,743,964</u>

The contract balances at December 31, 2021 and 2020 are presented on the consolidated statements of financial position. At January 1, 2020, contract balances included accounts receivable of \$106,421.

Performance Obligations

For performance obligations related to supply, souvenir and merchandise sales, the benefit of the service is transferred at a point in time. Revenue is recorded for these services after the service has been provided.

For performance obligations related to memberships, club charter fees, and Model Aviation advertising and subscriptions, the benefit of the service is satisfied over time. Revenue is recognized based on the passage of time.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects the Academy's financial assets as of the consolidated statements of financial position date, reduced by amounts not available for general use within one year of the consolidated statements of financial position date because of donor-imposed restrictions or internal designations. Financial assets are considered unavailable when not convertible to cash within one year.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,286,195	\$ 3,798,931
Receivables, net	27,022	80,810
Investments	<u>8,957,149</u>	<u>7,067,364</u>
Total financial assets	<u>13,270,366</u>	<u>10,947,105</u>
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	(1,857,878)	(1,840,455)
Perpetual in nature	(105,240)	(103,396)
Designated by the Executive Council for contingencies	(3,940,000)	(3,940,000)
Designated by the Executive Council for club legal defense	(28,468)	(28,468)
Designated by the Executive Council for natural disasters	(117)	(117)
Designated by the Executive Council for scholarships	(30,526)	(30,526)
Designated by the Executive Council for endowment	(326,555)	(319,352)
Competition funds escrow	<u>(254,919)</u>	<u>(187,445)</u>
	<u>(6,543,703)</u>	<u>(6,449,759)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,726,663</u>	<u>\$ 4,497,346</u>

In addition to financial assets available to meet general expenditures over the year, the Academy anticipates covering its general expenditures by collecting earned revenue from membership revenue as well as contributions. The Academy also has available to them a \$2,500,000 line of credit in which they can draw funds to help meet general expenditures. See Note 9.

NOTE 4 - RECEIVABLES

	<u>2021</u>	<u>2020</u>
Advertising	\$ 28,861	\$ 48,835
Other receivables	<u>1,161</u>	<u>34,975</u>
	30,022	83,810
Less allowance for doubtful accounts	<u>3,000</u>	<u>3,000</u>
	<u>\$ 27,022</u>	<u>\$ 80,810</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - PREPAID EXPENSES

	<u>2021</u>	<u>2020</u>
Insurance	\$ 294,423	\$ 290,526
Membership processing expenses	180,855	239,882
Other prepaid expenses	<u>157,335</u>	<u>71,310</u>
	<u>\$ 632,613</u>	<u>\$ 601,718</u>

NOTE 6 - INVESTMENTS

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Merrill Lynch				
Marketable equity securities	\$ 3,915,855	\$ 8,953,530	\$ 3,321,956	\$ 7,063,745
Stocks Held On-Site	<u>6,657</u>	<u>3,619</u>	<u>6,657</u>	<u>3,619</u>
	<u>\$ 3,922,512</u>	<u>\$ 8,957,149</u>	<u>\$ 3,328,613</u>	<u>\$ 7,067,364</u>

Net investment return is comprised of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 76,038	\$ 83,092
Net realized gain on investments	405,039	70,311
Net unrealized gain on investments	1,296,792	1,232,736
Investment fees	<u>(56,153)</u>	<u>(43,434)</u>
	<u>\$ 1,721,716</u>	<u>\$ 1,342,705</u>

NOTE 7 - FAIR VALUE MEASUREMENTS

Fair values of the Academy's financial assets measured on a recurring basis at December 31, 2021 and 2020 are as follows:

	<u>2021</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments				
Marketable equity securities	\$ 8,953,530	\$ 8,953,530	\$ -	\$ -
Stocks Held On-Site	<u>3,619</u>	<u>3,619</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,957,149</u>	<u>\$ 8,957,149</u>	<u>\$ -</u>	<u>\$ -</u>

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - FAIR VALUE MEASUREMENTS - CONTINUED

	2020			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Marketable equity securities	\$ 7,063,745	\$ 7,063,745	\$ -	\$ -
Stocks Held On-Site	<u>3,619</u>	<u>3,619</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,067,364</u>	<u>\$ 7,067,364</u>	<u>\$ -</u>	<u>\$ -</u>

Level 1 - Fair values for investments are determined by reference to quoted market prices.

Level 2 - Fair values for investments are calculated using quoted market prices for similar assets in markets that are not active.

Level 3 - Fair values for investments are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair measurement. There were no transfers in or out of Level 3 investments during 2021 or 2020.

NOTE 8 - PROPERTY AND EQUIPMENT

	2021	2020
Land and improvements	\$ 3,997,877	\$ 3,958,953
Buildings and improvements	3,836,047	3,836,047
Headquarters building	3,401,618	3,401,618
Computers and software	2,595,801	2,483,184
Museum contents and library	258,464	258,464
Furniture and fixtures	1,109,065	1,109,065
Vehicles	<u>304,715</u>	<u>304,715</u>
Total cost	15,503,587	15,352,046
Less accumulated depreciation	<u>11,498,236</u>	<u>10,938,986</u>
	<u>\$ 4,005,351</u>	<u>\$ 4,413,060</u>

NOTE 9 - LINE OF CREDIT

The Academy has up to \$2,500,000 available on a line of credit with a bank at December 31, 2021 and 2020, which continues indefinitely with no expiration date or renewal required. The amount that can be borrowed is based on a calculation performed by the bank. The line of credit bears interest at 1 month LIBOR (0.10% and 0.14% at December 31, 2021 and 2020), plus 1.75%, and is secured by the Academy's investments. There were no outstanding borrowings on the line of credit at December 31, 2021 and 2020.

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - PAYCHECK PROTECTION PROGRAM LOAN

The Academy was granted a \$643,800 loan under the Paycheck Protection Program ("PPP") administered by a Small Business Administration approved program partner in April 2020. The loan was uncollateralized and was fully guaranteed by the federal government. The Academy initially recorded a note payable and subsequently recorded loan forgiveness income of \$643,800 when the loan obligation was legally released in November 2020.

On January 27, 2021, the Academy received a second-round PPP loan in the amount of \$521,533. This loan follows the same provisions as the previous loan and was forgivable after a covered period as long as the borrower meets the specified criteria. The Academy initially recorded a note payable and subsequently recorded loan forgiveness income of \$521,533 when the loan obligation was legally released in June 2021.

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

	<u>2021</u>	<u>2020</u>
Purpose Restrictions		
Site development	\$ 656,837	\$ 644,022
Scholarships and awards	604,071	575,708
Other programs	<u>596,970</u>	<u>620,725</u>
	<u>1,857,878</u>	<u>1,840,455</u>
Perpetual in Nature		
Scholarships	15,000	15,000
Endowment funds	83,583	81,739
Stocks held in perpetuity	<u>6,657</u>	<u>6,657</u>
	<u>105,240</u>	<u>103,396</u>
	<u>\$ 1,963,118</u>	<u>\$ 1,943,851</u>

NOTE 12 - OPERATING LEASES

The Academy has entered into various operating lease agreements for copier equipment and other office equipment and service agreements. The leases and agreements require monthly lease payments plus additional charges based upon usage. The equipment may be purchased for fair market value at the end of the lease. The leases and agreements expire at various dates through March 2023. The amount charged to lease expense was \$63,398 and \$60,256 for the years 2021 and 2020.

Future minimum lease payments for the subsequent two years are as follows:

2022	\$ 25,351
2023	5,153

THE ACADEMY OF MODEL AERONAUTICS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - CONTINGENCIES

In the normal course of operations, there may be outstanding liabilities arising from the Academy's membership insurance programs, which are not reflected in the accompanying consolidated financial statements.

The Academy provides comprehensive general liability insurance to its members under a commercial policy with coverage up to \$2,500,000 per occurrence, with an aggregate limit of \$5,000,000 per location. The overall aggregate limit is \$15,000,000. The Academy is obligated for a \$250,000 self-insured retention per occurrence, with an annual maximum retention of \$1,500,000.

While certain claims for damages have been asserted as of December 31, 2021, the Academy's management is of the opinion that insurance coverage is adequate to fund any anticipated losses that would exceed the Academy's self-insured portion. It is management's intention to defend these claims vigorously. There was no liability recorded for estimated claims in 2021 and 2020.

The Academy recognized claims expense of \$12,479 and \$26,178 during the years 2021 and 2020.

NOTE 14 - FUNCTIONAL EXPENSES

The consolidated 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 and related employee benefits and payroll taxes which are allocated on the basis of estimates of time and effort.

NOTE 15 - ANNUITY RETIREMENT PLAN

The Academy has adopted a Section 403(b) Annuity Retirement Plan. Employees are eligible to enter the Plan upon completion of one month of service, and there is no minimum age requirement to participate. Participants may select elective deferrals of up to \$19,500 if less than 50 years of age, and \$26,000 if over 50 years of age for the years 2021 and 2020. The Academy has agreed to match 100% of employee contributions to the Plan to a maximum of 7% of compensation upon completion of one year of service. The Plan also allows additional discretionary employer contributions. Contributions of \$189,810 and \$161,153 were made to the Plan for the years 2021 and 2020.

NOTE 16 - SUBSEQUENT EVENT

As a result of the volatility in the United States' financial markets, the market value of the Academy's investments has declined since December 31, 2021. Management has not determined the decrease as of August 2, 2022, the date the financial statements were available to be issued.