

THE CAVANAUGH FLIGHT MUSEUM

FINANCIAL REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Cavanaugh Flight Museum
Addison, Texas 75001

We have audited the accompanying statements of The Cavanaugh Flight Museum (the Museum), which comprise of the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year 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 audit. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Cavanaugh Flight Museum

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cavanaugh Flight Museum at December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
December 19, 2013

**THE CAVANAUGH FLIGHT MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 199,585
Accounts receivable	17,783
Prepaid expenses	35,764
Inventories	37,027
	37,027

Total current assets 290,159

EQUIPMENT AND MUSEUM COLLECTIONS

Furniture and equipment	472,928
Vehicles	118,788
Leasehold improvements	14,921
Museum collections	3,977,409
	3,977,409

4,584,046

Accumulated depreciation	(456,643)
	(456,643)

Equipment and museum collections, net 4,127,403

TOTAL ASSETS

\$ 4,417,562

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 120,389
Current maturities of capital leases	3,979
Accrued liabilities	33,019
Deferred revenues	45,496
	45,496

Total current liabilities 202,883

CAPITAL LEASE OBLIGATIONS, less current maturities

7,081

NET ASSETS

Unrestricted	4,207,598
	4,207,598

Total net assets 4,207,598

TOTAL LIABILITIES AND NET ASSETS

\$ 4,417,562

The Notes to Financial Statements are an integral part of this statement.

**THE CAVANAUGH FLIGHT MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	For the Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
DONATIONS, ADMISSIONS, AND OTHER SUPPORT			
Donations	\$ 145,265	\$ -	\$ 145,265
Related party contributions	1,637,458	-	1,637,458
Memberships	9,475	-	9,475
Flight museum and vending machine sales	100,031	-	100,031
Flights and airshows	449,823	-	449,823
Fundraising events	111,048	-	111,048
Admission fees	137,924	-	137,924
Rental	52,483	-	52,483
Other	32,718	-	32,718
Net assets released from restrictions	5,000	(5,000)	-
Total donations, admissions, and other support	2,681,225	(5,000)	2,676,225
EXPENSES			
Programs services	1,722,758	-	1,722,758
Management and general	550,775	-	550,775
Fundraising	81,725	-	81,725
Total expenses and losses	2,355,258	-	2,355,258
CHANGE IN NET ASSETS	325,967	(5,000)	320,967
NET ASSETS, BEGINNING OF YEAR	3,881,631	5,000	3,886,631
NET ASSETS, END OF YEAR	\$ 4,207,598	\$ -	\$ 4,207,598

The Notes to Financial Statements are an integral part of this statement.

**THE CAVANAUGH FLIGHT MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 320,967
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Donated equipment and collections	(170,010)
Depreciation	79,279
Changes in assets and liabilities:	
Increase in accounts receivable	(8,043)
Decrease in prepaid expenses	53,087
Increase in inventory	(2,345)
Decrease in accounts payable	(47,717)
Increase in accrued liabilities	7,386
Decrease in deferred revenues	<u>(6,159)</u>
Net cash provided by operating activities	226,445
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions of equipment and collections	<u>(217,526)</u>
Net cash used in investing activities	<u>(217,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease	<u>(4,345)</u>
Net cash used in financing activities	<u>(4,345)</u>
Net change in cash and cash equivalents	4,574
CASH AND CASH EQUIVALENTS, beginning of year	<u>195,011</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 199,585</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 10,847</u>
Non-cash operating activities	
Contribution of free use of facilities	<u>\$ 385,360</u>

The Notes to Financial Statements are an integral part of this statement.

THE CAVANAUGH FLIGHT MUSEUM NOTES TO FINANCIAL STATEMENTS

NOTE 1. HISTORICAL BACKGROUND AND ACCOUNTING POLICIES

The Cavanaugh Flight Museum (the Museum) is an educational organization devoted to promoting aviation studies and to perpetuating America's aviation heritage. The Museum fulfills its mission by restoring, operating, maintaining and displaying historically-significant vintage aircraft and by collecting materials related to the history of aviation. It was opened during 1993 by Jim Cavanaugh in Addison, Texas and became a non-profit 501(c)(3) on December 22, 2002.

Basis of Accounting

The Museum maintains its books on the full accrual method of accounting where income is recorded when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its guidance of the presentation of financial statements for not-for-profit organizations. Under the FASB guidance, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Museum considers all unrestricted, highly-liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable arise from the use of museum collections by outside parties (airshows, flyovers, etc.), memberships, and others services provided. Management periodically reviews accounts receivable on an individual account basis and makes a determination of collectability based on historical data, contract information, and account size. Accounts are written off when it appears that collection efforts will not be successful.

Inventory

Inventory of museum products held for sale is valued at the lower of cost or market, with cost determined on an average cost basis.

Equipment and Museum Collections

The Museum's collections consist primarily of historically significant vintage aircraft and materials related to the history of aviation.

THE CAVANAUGH FLIGHT MUSEUM NOTES TO FINANCIAL STATEMENTS

NOTE 1. HISTORICAL BACKGROUND AND ACCOUNTING POLICIES – CONTINUED

Equipment and Museum Collections – Continued

Donations of equipment and museum collections are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment and museum collections are reported as restricted support.

Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets at that time. Gains and losses on disposals of donated collections are recorded based on the presence or absence of donor restrictions.

All non-donated additions of equipment and museum collections equal to or greater than \$1,000 are capitalized and stated at cost. Maintenance and repairs of equipment and collections are expensed as incurred; major renewals and betterments are capitalized.

Depreciation expense is recorded on equipment using the straight-line method calculated at various rates based on the estimated useful lives of the assets ranging from three to seven years. Depreciation expense for the year ended December 31, 2012 was \$79,279. Museum collections are not depreciated. During 2013, the Museum increased their capitalization policy from \$200 to \$1,000. Due to this change in the estimate of the continuing benefits of assets capitalized below \$1,000 in prior years, the undepreciated balances of those assets (approximately \$25,000) have been adjusted to depreciation in the current year.

Financial Instruments

The recorded values of the Museum's financial instruments (cash and cash equivalents, accounts receivable and accounts payable) approximate their fair values based on their short-term nature.

Revenue Recognition

Revenues are derived primarily from contributions of equipment and collections, cash contributions and museum admissions and inventory sales. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**THE CAVANAUGH FLIGHT MUSEUM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. HISTORICAL BACKGROUND AND ACCOUNTING POLICIES – CONTINUED

Advertising

The Museum expenses advertising costs when incurred. The advertising expense for the year ended December 31, 2012 was \$51,382.

Income Taxes

Effective for tax years beginning after December 22, 2002, the Museum obtained a ruling allowing it to change its tax status to a non-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Museum adopted an accounting pronouncement related to accounting for uncertainly in income taxes. The pronouncement requires that the Museum recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. The pronouncement also provides guidance on measurement, classification, interest and penalties and disclosure. Tax positions taken related to the Museum's not-for-profit status have been reviewed and management is of the opinion that material positions taken by the Museum would more likely than not be sustained by examination. Accordingly, the Museum has not recorded an income tax liability for uncertain tax benefits. As of December 31, 2012, the Plan's tax years 2009 and thereafter remain subject to examination for federal tax purposes.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could vary significantly from the estimates that were used.

Subsequent Events

The Museum has evaluated all subsequent events through December 19, 2013, the date these financial statements were issued, and determined there are no material recognized or unrecognized subsequent events.

NOTE 2. DEFERRED REVENUES

The Museum offers gift certificates for airplane flights. These gift certificates, which expire within one year of purchase, are recorded as deferred revenues at the purchase price until redeemed or expired. As of December 31, 2012, the total value of issued gift certificates valid and outstanding was \$45,496.

**THE CAVANAUGH FLIGHT MUSEUM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. RELATED PARTY CONTRIBUTIONS

The Museum receives contributions in various forms from certain board members or businesses directly related to those board members. Such contributions are classified as related party transactions.

The facilities used by the Museum are owned or leased by a board member or related business and are provided free of charge. The estimated fair value of the donated use of these facilities was determined based on actual rent paid for the space (if leased) or similar spaces (if owned) and is included in rent expense and related party contributions. The total fair value of the donated use of facilities by the board member was \$60,000. During the year ended December 31, 2012, the related business provided cash contributions of \$325,360 for the use of facility expenditures.

Occasionally, the Museum receives donated property, including museum collections, from a related party. These donations are reported at the estimated fair value at the date of donation. Donated property received was \$150,000 during the year ended December 31, 2012.

Also during the year ended December 31, 2012, related parties gave \$1,102,098 through donations of cash or reimbursement of expenses.

NOTE 4. USE AGREEMENTS

In March 2013, the Museum renewed Use Agreements with Cavanaugh Air, L.L.C. and Cavanaugh Collections, Inc. (both related parties and, collectively, the Owners). Through these agreements, the Museum is granted exclusive use of various aircraft owned by the Owners through February 2018. The aircraft included under the agreements are not included in the Museum Collections total included on the Balance Sheet at December 31, 2012.

NOTE 5. CONCENTRATIONS

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Museum derives its revenue from contributions, programs and admissions which are affected by economic conditions, public perception and donor satisfaction. Approximately 61% of the Museum's total support for the year ended December 31, 2012 was received from related parties. One individual was responsible for providing approximately 48% of total support.

**THE CAVANAUGH FLIGHT MUSEUM
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. FUNCTIONAL EXPENSE ALLOCATION

Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Museum.

The functional expense allocation at December 31, 2012 is as follows:

Description	Total Expenses	Program Services	Management and General	Fund- Raising
Aircraft expense	\$ 222,297	\$ 222,297	\$ -	\$ -
Airshow expense	100	100	-	-
Auto expense	30,633	5,749	24,884	-
Aviation fuel	59,146	59,146	-	-
Contract services	800	800	-	-
Cost of sales - inventory	51,479	51,479	-	-
Depreciation	79,279	78,512	767	-
Flight training/physicals	6,129	6,129	-	-
Insurance	142,047	116,006	26,041	-
Maintenance, supplies, shop expense	111,190	73,019	38,171	-
Operating expenses	634,627	593,383	41,244	-
Other	28,198	27,720	478	-
Professional services	61,600	20,600	41,000	-
Payroll, taxes, and benefits	744,446	366,256	378,190	-
Special events	183,287	101,562	-	81,725
	<u>\$ 2,355,258</u>	<u>\$ 1,722,758</u>	<u>\$ 550,775</u>	<u>\$ 81,725</u>

**THE CAVANAUGH FLIGHT MUSEUM
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. CAPITAL LEASE OBLIGATIONS

During the year ended December 31, 2010, the Museum entered into a capital lease agreement for security equipment which expires March 2015. The amortization of the capital lease asset is included in depreciation expense. The following is a summary of the leased asset included in furniture and equipment at December 31, 2012:

Equipment	\$ 23,700
Less accumulated depreciation	<u>(12,245)</u>
Net Book Value	<u><u>\$ 11,455</u></u>

Future minimum commitments under the capital lease are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	4,490	1,270	5,760
2014	5,162	598	5,760
2015	<u>1,408</u>	<u>33</u>	<u>1,441</u>
Total	<u><u>\$ 11,060</u></u>	<u><u>\$ 1,901</u></u>	<u><u>\$ 12,961</u></u>