

THE AIR FORCE MUSEUM FOUNDATION, INC.
(A Nonprofit Foundation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

THE AIR FORCE MUSEUM FOUNDATION, INC.

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YEARS ENDED DECEMBER 31, 2014 AND 2013

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **The Air Force Museum Foundation, Inc.** (a nonprofit Foundation), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the 2014 financial statements referred to above present fairly, in all material respects, the financial position of **The Air Force Museum Foundation, Inc.** as of December 31, 2014, 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.

Prior Period Financial Statements

The financial statements of **The Air Force Museum Foundation, Inc.** as of December 31, 2013, were audited by other auditors whose report dated April 22, 2014, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules referred to in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Dayton, Ohio
May 4, 2015

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,860,773	\$ 593,018
Investments - at fair value	1,125,810	1,680,922
Interest and dividends receivable	9	22,251
Merchandise inventories	265,140	298,270
Current portion of pledges receivable	1,557,285	2,053,525
Prepaid expenses and other assets	<u>82,031</u>	<u>104,766</u>
	<u>4,891,048</u>	<u>4,752,752</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	242,851	242,851
Furniture and equipment	<u>1,636,975</u>	<u>1,899,311</u>
	1,879,826	2,142,162
Less accumulated depreciation	<u>1,022,977</u>	<u>1,193,033</u>
	<u>856,849</u>	<u>949,129</u>
OTHER ASSETS		
Annuities receivable	23,242	26,462
Capitalized loan costs, net	69,865	84,973
Investments - at fair value	4,646,830	5,189,414
Pledges receivable - long-term	<u>4,689,474</u>	<u>5,904,156</u>
	<u>9,429,411</u>	<u>11,205,005</u>
	<u>\$ 15,177,308</u>	<u>\$ 16,906,886</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 109,123	\$ 128,025
Accrued liabilities		
Payroll and sales taxes, and 401(k) contributions	147,094	37,786
Accrued interest	17,668	35,340
Notes payable - current	1,387,250	1,921,000
Interest rate swap liability - current	<u>92,762</u>	<u>116,448</u>
Total current liabilities	1,753,897	2,238,599
Notes payable - long-term	5,128,000	6,517,500
Interest rate swap liability - long-term	32,669	20,640
Deferred revenue	<u>77,230</u>	<u>64,630</u>
Total liabilities	<u>6,991,796</u>	<u>8,841,369</u>
NET ASSETS		
Unrestricted	7,558,673	7,605,008
Temporarily restricted	<u>626,839</u>	<u>460,509</u>
	<u>8,185,512</u>	<u>8,065,517</u>
	<u>\$ 15,177,308</u>	<u>\$ 16,906,886</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Merchandise sales	\$ 2,474,436	\$ -	\$ 2,474,436
Building and education fund donations	33,786	937,124	970,910
Other gifts and grants	1,649,674	3,515	1,653,189
Theatre ticket sales	785,549	-	785,549
Interest and dividends, net	63,525	-	63,525
Membership fees	505,857	-	505,857
Memorial park fund	-	7,007	7,007
Cafe net sales	197,812	-	197,812
Mail order fees, concessions, and other	48,863	-	48,863
Realized gains on investments, net	12,627	-	12,627
	<u>5,772,129</u>	<u>947,646</u>	<u>6,719,775</u>
EXPENSES			
Salaries and wages	1,322,368	-	1,322,368
Cost of merchandise sold	1,073,009	-	1,073,009
Service contracts	121,010	-	121,010
Museum program support	127,112	18,316	145,428
Interest expense	211,113	-	211,113
Theatre operations	247,975	-	247,975
Depreciation and amortization	189,717	-	189,717
Payroll taxes	104,166	-	104,166
Professional services	108,146	-	108,146
Bank and card processing fees	76,912	-	76,912
Special events	2,587	-	2,587
Investment management fees	5,000	-	5,000
Printing costs	64,858	-	64,858
Shipping and postage	61,930	-	61,930
Marketing and advertising	93,453	-	93,453
Cafe in-house expenses	34,177	-	34,177
Medical and life insurance benefits	28,842	-	28,842
401(k) contributions	35,626	-	35,626
Supplies	33,619	-	33,619
Insurance	37,509	-	37,509
Other	26,672	-	26,672
Travel	5,693	-	5,693
Telephone	14,857	-	14,857
Equipment	24,001	-	24,001
Loss on disposal of assets	2,262	-	2,262
	<u>4,052,614</u>	<u>18,316</u>	<u>4,070,930</u>
REVENUES IN EXCESS OF EXPENSES	1,719,515	929,330	2,648,845
RELEASED FROM DONOR RESTRICTIONS	763,000	(763,000)	-
DONATED TO THE UNITED STATES AIR FORCE	(2,688,781)	-	(2,688,781)
UNREALIZED GAINS ON INVESTMENTS, NET	<u>159,931</u>	<u>-</u>	<u>159,931</u>
CHANGE IN NET ASSETS	(46,335)	166,330	119,995
NET ASSETS			
Beginning of year	<u>7,605,008</u>	<u>460,509</u>	<u>8,065,517</u>
End of year	<u>\$ 7,558,673</u>	<u>\$ 626,839</u>	<u>\$ 8,185,512</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Merchandise sales	\$ 2,281,768	\$ -	\$ 2,281,768
Building and education fund donations	230,226	886,933	1,117,159
Other gifts and grants	721,392	-	721,392
Theatre ticket sales	637,821	-	637,821
Interest and dividends, net	519,411	48	519,459
Membership fees	515,188	-	515,188
Memorial park fund	-	9,033	9,033
Cafe net sales	134,703	-	134,703
Mail order fees, concessions, and other	57,110	-	57,110
Realized losses on investments, net	<u>(236,035)</u>	<u>-</u>	<u>(236,035)</u>
Total revenues	<u>4,861,584</u>	<u>896,014</u>	<u>5,757,598</u>
EXPENSES			
Salaries and wages	1,206,895	-	1,206,895
Cost of merchandise sold	1,029,148	-	1,029,148
Service contracts	365,500	-	365,500
Museum program support	180,712	5,639	186,351
Interest expense	172,428	-	172,428
Theatre operations	155,963	-	155,963
Depreciation and amortization	134,410	-	134,410
Payroll taxes	93,867	-	93,867
Professional services	89,598	-	89,598
Bank and card processing fees	85,729	-	85,729
Special events	77,309	-	77,309
Investment management fees	77,068	-	77,068
Printing costs	66,435	-	66,435
Shipping and postage	63,104	-	63,104
Marketing and advertising	55,225	-	55,225
Cafe in-house expenses	43,534	-	43,534
Medical and life insurance benefits	36,340	-	36,340
401(k) contributions	34,491	-	34,491
Supplies	34,135	-	34,135
Insurance	31,059	-	31,059
Other	19,975	-	19,975
Travel	17,649	-	17,649
Telephone	15,829	-	15,829
Equipment	15,808	-	15,808
Loss on disposal of assets	<u>2,893</u>	<u>-</u>	<u>2,893</u>
Total expenses	<u>4,105,104</u>	<u>5,639</u>	<u>4,110,743</u>
REVENUES IN EXCESS OF EXPENSES	756,480	890,375	1,646,855
RELEASED FROM DONOR RESTRICTIONS	23,400,127	(23,400,127)	-
DONATED TO THE UNITED STATES AIR FORCE	(37,250,184)	-	(37,250,184)
UNREALIZED GAINS ON INVESTMENTS, NET	<u>130,418</u>	<u>-</u>	<u>130,418</u>
CHANGE IN NET ASSETS	(12,963,159)	(22,509,752)	(35,472,911)
NET ASSETS			
Beginning of year	<u>20,568,167</u>	<u>22,970,261</u>	<u>43,538,428</u>
End of year	<u>\$ 7,605,008</u>	<u>\$ 460,509</u>	<u>\$ 8,065,517</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 119,995	\$ (35,472,911)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation and amortization	189,717	134,410
Change in net present value	(192,318)	(219,116)
Net (gain) loss on investments	(172,558)	105,617
Unrealized (gain) loss on interest rate swap liability	(11,658)	137,088
Loss on disposal of assets	<u>2,262</u>	<u>2,893</u>
	(64,560)	(35,312,019)
Changes in operating assets and liabilities:		
Interest and dividends receivable	22,242	169,474
Merchandise inventories	33,130	(12,809)
Pledges receivable	1,903,240	3,199,475
Annuity receivable	3,220	3,097
Prepaid expenses, and other assets	22,735	(50,396)
Accounts payable	(18,902)	(18,963)
Deferred revenues	12,600	9,230
Accrued liabilities	<u>91,636</u>	<u>43,459</u>
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	<u>2,005,341</u>	<u>(31,969,452)</u>
INVESTING ACTIVITIES		
Purchases of investments	(5,452,344)	(32,127,699)
Maturities and sales of investments	6,722,598	56,121,092
Capital expenditures	<u>(84,590)</u>	<u>(471,062)</u>
Net Cash and Cash Equivalents Provided by Investing Activities	<u>1,185,664</u>	<u>23,522,331</u>
FINANCING ACTIVITIES		
Proceeds from notes payable	-	8,800,000
Payments on notes payable	(1,923,250)	(361,500)
Payments related to loan payable origination fees	<u>-</u>	<u>(87,491)</u>
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	<u>(1,923,250)</u>	<u>8,351,009</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,267,755	(96,112)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>593,018</u>	<u>689,130</u>
End of year	<u>\$ 1,860,773</u>	<u>\$ 593,018</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 240,442</u>	<u>\$ -</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The purpose of **The Air Force Museum Foundation, Inc.** (the "Foundation") is to foster and develop the National Museum of the United States Air Force (the "Museum") as a medium of information and education. The Foundation also assists in activities to develop and expand the Museum facilities through the donation of services and miscellaneous supplies. The activities of the Foundation include Theatre, Museum Store, Cafe, Membership, Development, and General. The Foundation follows the accounting procedures as set forth in the American Institute of Certified Public Accountants audit and accounting guide for Non-Profit Foundations.

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

Cash and Cash Equivalents - Cash and equivalents include interest-bearing deposits and short-term daily investments, and are stated at cost which approximates fair value. At December 31, 2014, the Foundation's cash and cash equivalents are maintained at a single financial institution and exceed the federal depository insurance limit of \$250,000.

Merchandise Inventories - Merchandise inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Pledge Receivables - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in one or more years are discounted to present value. Conditional promises to give are recorded only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges to gift money or stock will be recorded on the books of the Foundation upon receipt of a pledge agreement or signed letter of intent which specifies the terms of the pledge. The terms and timing of pledge payments are then recorded as receivables as specified in the signed pledge agreement at fair value as of the pledge date.

Gifts and gift pledges in which the donor has specified definite restrictions as to purpose with payment due in future years, will be recorded as temporarily restricted assets and will only be used for the purpose specified.

Each year-end, the outstanding pledges are reviewed to determine if an allowance for doubtful pledges should be recorded. A specific allowance is booked if a pledge is greater than one year past due. As of December 31, 2014 and 2013, there were no pledges requiring an allowance per Foundation policy.

Property and Equipment - Property and equipment are stated at cost or fair market value if donated to the Foundation and are depreciated using the straight-line method over the estimated useful life of the asset. Maintenance and repairs are charged to expense at the time expenditures are incurred. Expenditures which significantly extend the lives of assets and major improvements are capitalized. Impairment of asset value is recognized whenever events or changes in circumstances indicate that carrying amounts are not recoverable. No indication of impairment existed at December 31, 2014 and 2013.

Investments - Investments are classified as available-for-sale. Investments donated to the Foundation are recorded at fair market value at the date of the gift. Changes in fair values of investments are included in the Statements of Activities and Changes in Net Assets under the caption, Realized gains (losses) on investments, net. Realized gains or losses from the sale of investment securities are determined using the specific identification method.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fair Value - Accounting standards establish a single definition of fair value and a framework for measuring fair value in accordance with generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. This standard applies whenever other authoritative literature requires (or permits) certain assets and liabilities to be measured at fair value. Items carried at fair value on a recurring basis consist of investment and the interest rate swap liability. The Foundation also uses fair value concepts to test various long-lived assets for impairment, in the event a triggering event has occurred.

Capitalized Loan Costs - During 2013, the Foundation incurred \$87,491 of fees for the origination of the pledge loans. Pursuant to ASC 310, *Receivables*, these costs have been capitalized in capitalized loan costs, net in the statements of financial position, and are being amortized over the life of the two loans which is four and seven years. Amortization expense for the years ended December 31, 2014 and 2013 was \$15,108 and \$2,518, respectively. Accumulated amortization was \$17,626 and \$2,518 as of December 31, 2014 and 2013, respectively.

Estimated amortization expense for the next five years and thereafter is as follows:

2015	\$	15,108
2016		15,108
2017		13,552
2018		10,439
2019		10,439
Thereafter		<u>5,219</u>
	\$	<u>69,865</u>

Deferred Revenues - Memberships - The Foundation offers one, two, and three-year memberships. Membership fees relating to the cost associated with two and three-year memberships are deferred and recognized into income during the period in which the services are provided. Expenses related to memberships were \$250,915 and \$281,400 for 2014 and 2013, respectively.

Revenues - Pledges, gifts, grants, and membership fees are recorded at present value as received, pledged, or as they become available. Merchandise sales, cafe sales, and theatre ticket sales are recorded upon receipt.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. The Foundation did not receive any permanently restricted contributions during 2014 and 2013.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. The Foundation recognizes the fair value of contributed goods and services received if such goods and services a) create or enhance non-financial assets, or b) require specialized skills that are provided by individuals possessing those skills, and c) would typically need to be purchased if not contributed. The fair value of donated goods and services totaling \$21,586 and \$82,670, have been included in the Statements of Activities and Changes in Net Assets as part of the appropriate expense category for the years ended December 31, 2014 and 2013, respectively.

Tax-Exempt Status - The Foundation is a tax-exempt Foundation under Section 501(c)(3) of the Internal Revenue Code. However, certain income may be subject to unrelated business income tax. The Foundation had no unrelated business taxable income during 2014 and 2013.

Accounting for Uncertainty in Income Taxes - The Foundation has adopted accounting rules that prescribe when to recognize, and how to measure, the financial statement effects of income tax positions taken, or expected to be taken, on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Foundation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all, or a portion of, the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability has been recognized in the accompanying balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of December 31, 2014, or for the year then ended. The federal informational returns of the Foundation for 2011, 2012, and 2013 are subject to examination by taxing authorities, generally for three years after the due date.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year presentation.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 4, 2015, the date the financial statements were available to be issued.

NOTE B - MERCHANDISE INVENTORIES

	<u>2014</u>	<u>2013</u>
Gifts	\$ 99,502	\$ 87,768
Books	65,750	101,927
Prints	8,364	8,864
Models	10,783	10,741
Donated items	40,684	44,445
Audio visual	18,893	30,184
Other	<u>21,164</u>	<u>14,341</u>
	<u>\$ 265,140</u>	<u>\$ 298,270</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE C - PLEDGES RECEIVABLE

The Foundation records pledges receivable at present value, which is \$6,246,759 and \$7,957,681 at December 31, 2014 and 2013, respectively. Approximately, 89% of the undiscounted pledges receivable, or \$6,000,000, represents pledges from one party. The net present value of long-term pledges receivable is determined based upon the 3, 5, or 10 year treasury bill rates in the year the pledge is made.

The following table is a schedule of the amounts receivable for the next five years and thereafter:

<u>Years Ending</u> <u>December 31:</u>	<u>Pledges</u> <u>Receivable</u>
2015	\$ 1,557,285
2016	1,108,000
2017	1,058,000
2018	1,012,000
2019	1,000,000
Thereafter	<u>1,000,000</u>
	6,735,285
Less imputed interest	<u>488,526</u>
	<u>\$ 6,246,759</u>

NOTE D - INVESTMENTS

Investments with maturities of less than one year are classified as short-term. The remaining investments are classified as long-term. Investments at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Money market securities	\$ 1,125,810	\$ 1,680,922
U.S. Government obligations	-	5,187,371
Common stocks	-	2,043
Mutual funds		
Large Cap U.S. equity fund	2,023,948	-
International equity fund	420,033	-
Fixed income funds	<u>2,202,849</u>	-
Total mutual funds	4,646,830	-
Total investments	5,772,640	6,870,336
Less current investments	<u>1,125,810</u>	<u>1,680,922</u>
	<u>\$ 4,646,830</u>	<u>\$ 5,189,414</u>

Investment management fees for 2014 and 2013 totaled \$5,000 and \$77,068, respectively.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E - FAIR VALUE

The Foundation is required to use inputs for measuring fair value according to the three level hierarchy established in the accounting standards, using the highest level possible (e.g., Level 1) if such inputs are available, and if not, going to the next lower level.

The three levels for measuring fair value are:

Level 1 - Fair values are determined by reference to quoted market prices in an active market and other relevant information generated by market transactions.

Level 2 - Fair value is based on model inputs that are observable either directly or indirectly.

Level 3 - Fair values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair measurement. These inputs reflect assumptions of management using valuation techniques consistent from year to year.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014.

Money market securities, mutual funds, U.S. Treasury obligations, and common stock: Valued at the net asset value (NAV) of shares held by the Foundation at year-end.

Interest rate swap liability: Valued based upon amounts provided by the Foundation's financial institution.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no transfers between classifications or changes in valuation methods to determine leveling during 2014 and 2013.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2014 and 2013:

	2014		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Assets			
Money market securities	\$ 1,125,810	\$ 1,125,810	\$ -
Mutual funds	<u>4,646,830</u>	<u>4,646,830</u>	<u>-</u>
	<u>\$ 5,772,640</u>	<u>\$ 5,772,640</u>	<u>\$ -</u>
Liabilities			
Interest rate swap liability	<u>\$ 125,431</u>	<u>\$ -</u>	<u>\$ 125,431</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E - FAIR VALUE - continued

	Fair Value	2013	
		Level 1	Level 2
Assets			
Money market securities	\$ 1,680,922	\$ 1,680,922	\$ -
U.S. Treasury obligations	5,187,371	5,187,371	-
Common stock	<u>2,043</u>	<u>2,043</u>	-
	<u>\$ 6,870,336</u>	<u>\$ 6,870,336</u>	<u>\$ -</u>
Liabilities			
Interest rate swap liability	<u>\$ 137,088</u>	<u>\$ -</u>	<u>\$ 137,088</u>

NOTE F - NOTES PAYABLE

The Foundation executed two notes with a financial institution in September of 2013, to fund \$8,800,000 of its gift to the United States Air Force for the construction of the 4th Building of the Museum. This gift was executed in November 2013. The Foundation had previously raised pledge donations for this portion of the gift; however, a portion of these pledged funds are still receivable by the Foundation and recorded as current and long-term receivables. These pledged funds serve as collateral for the notes payable and the Foundation is required to maintain pledged receivables in an amount equal to or in excess of the outstanding indebtedness due and owing on the First Term Note and Second Term Note. The First Term Note bears an interest rate of London InterBank Offered Rate (LIBOR) plus 1.25%, and has a maturity date of June 2017. The Second Term Note bears an interest rate of LIBOR plus 1.25%, and has a maturity date of May 2020.

Notes payable consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
First Financial - Loan 1	\$ 515,250	\$ 1,438,500
First Financial - Loan 2	<u>6,000,000</u>	<u>7,000,000</u>
	6,515,250	8,438,500
Less current maturities	<u>1,387,250</u>	<u>1,921,000</u>
	<u>\$ 5,128,000</u>	<u>\$ 6,517,500</u>

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

<u>Years Ending December 31:</u>	<u>Principal Payments</u>
2015	\$ 1,387,250
2016	1,083,000
2017	1,045,000
2018	1,000,000
2019	1,000,000
Thereafter	<u>1,000,000</u>
	<u>\$ 6,515,250</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F - NOTES PAYABLE - continued

On September 5, 2013, in connection with the second term note at First Financial Bank, the Foundation entered into an interest rate swap for protection from the effects of fluctuating interest rates. Under this swap, which expires May 1, 2020, the Foundation pays a fixed rate of 3.30% and receives a floating rate that resets monthly based on LIBOR on the notional value of the second term note outstanding.

The outstanding interest rate swap is not designated as a hedge for accounting purposes. The effects of future fluctuations in LIBOR interest rates on derivatives held by the Foundation will result in the recording of unrealized gains or losses that are included in interest expense on the Statements of Activities and Changes in Net Assets.

Accordingly, at December 31, 2014 and 2013, the Foundation recorded an unrealized gain or (loss) on the interest rate swap of \$11,658 and \$(137,088), respectively in order to adjust the interest rate swap to fair market value for the years then ended. The mark-to-market liability at December 31, 2014 and 2013, of \$125,431 and \$137,088, respectively is recorded in the Statements of Financial Position and is classified as current and long-term based upon a maturity schedule provided by the financial institution, with the portion of the liability relating to interest to be paid by the Foundation reflected in interest expense within the Statements of Activities and Changes in Net Assets.

NOTE G - EMPLOYEE BENEFIT PLAN

The Foundation provides a 401(k) profit sharing plan, which covers all qualified employees. Participants may contribute up to 85% of their pre-tax annual compensation as defined in the Plan, up to the maximum amount permissible under tax laws. In 2014 and 2013, the Foundation matched 100% of the employees' contribution, up to 5% of the employees' pre-tax annual compensation as defined by the Plan. The Plan also provides for a profit sharing contribution at the discretion of the Board of Managers of the Foundation. The Foundation's expense under the Plan was \$35,626 and \$34,491 in 2014 and 2013, respectively.

NOTE H - DONATED TO THE UNITED STATES AIR FORCE

Museum buildings and related physical facilities constructed by or funded by the Foundation and other property have been donated to the United States Air Force. As of December 31, 2014 and 2013, the Foundation donated cash and investments for the following:

	<u>2014</u>	<u>2013</u>
Museum utilities	\$ -	\$ 42,000
Construction of 4th building expansion	<u>2,688,781</u>	<u>37,208,184</u>
	<u>\$ 2,688,781</u>	<u>\$ 37,250,184</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I - TEMPORARY RESTRICTED NET ASSETS

The temporarily restricted net assets consist primarily of contributions accepted by the Foundation for the building fund. As described in Notes H and J, during both years, funds raised were donated to the United States Air Force Gift Fund, for the construction of the "4th Building Project" addition to the Museum. The summary of the temporarily restricted net assets as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 407,942	\$ 261,507
Pledges receivable	<u>218,897</u>	<u>199,002</u>
	<u>\$ 626,839</u>	<u>\$ 460,509</u>

NOTE J - EXPANSION PROJECT

Although the primary funding for the 4th Building Project was gifted to United States Air Force during 2013, the Foundation continues its fundraising efforts. The Foundation had adequate funds available for the 224,000 square foot facility to house four new galleries at a cost of approximately \$38 million. The U.S. Army Corps of Engineers ("CoE") awarded the construction contract on December 2, 2013 to Turner Construction, Inc. During 2013, \$23.4 million in temporarily restricted net assets and \$13.8 million in board designated unrestricted net assets were paid toward the project. During 2014, additional funds totaling \$2.7 million were paid toward the project; of which, \$0.8 million were previously temporarily restricted net assets and \$1.9 million were board designated unrestricted net assets. Subsequent to year end, an additional \$0.3 million has been funded.

The Foundation will continue fundraising efforts to provide additional funding to the Museum for additional building requirements. All funds raised will be donated to the United States Air Force Gift Fund for the construction effort, to be managed by the CoE. Additional costs may be funded at the discretion of the Board of Managers of the Foundation from the Foundation's future operations. There were no fundraising expenses related to external professional services in 2014 and 2013.

THE AIR FORCE MUSEUM FOUNDATION, INC.

SCHEDULE OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Total	Other Operations	Museum Store	Theatre
REVENUES				
Merchandise sales	\$ 2,474,436	\$ -	\$ 2,403,979	\$ 70,457
Building and education fund donations	970,910	962,070	-	8,840
Other gifts and grants	1,653,189	1,645,558	7,592	39
Theatre ticket sales	785,549	-	-	785,549
Interest and dividends, net	63,525	63,525	-	-
Membership fees	505,857	505,857	-	-
Memorial park fund	7,007	7,007	-	-
Cafe net sales	197,812	197,812	-	-
Mail order fees, concessions, and other	48,863	14,482	26,396	7,985
Realized gains on investments, net	12,627	12,627	-	-
	<u>6,719,775</u>	<u>3,408,938</u>	<u>2,437,967</u>	<u>872,870</u>
Total revenues				
EXPENSES				
Salaries and wages	1,322,368	742,466	317,459	262,443
Cost of merchandise sold	1,073,009	-	1,063,954	9,055
Service contracts	121,010	76,272	15,504	29,234
Museum program support	145,428	145,428	-	-
Interest expense	211,113	211,113	-	-
Theatre operations	247,975	-	-	247,975
Depreciation and amortization	189,717	77,951	2,925	108,841
Payroll taxes	104,166	56,155	26,345	21,666
Professional services	108,146	107,146	150	850
Bank and card processing fees	76,912	13,639	49,010	14,263
Special events	2,587	1,046	-	1,541
Investment management fees	5,000	5,000	-	-
Printing costs	64,858	64,858	-	-
Shipping and postage	61,930	40,930	19,843	1,157
Marketing and advertising	93,453	88,889	1,363	3,201
Cafe in-house expenses	34,177	34,177	-	-
Medical and life insurance benefits	28,842	11,877	9,775	7,190
401(k) contributions	35,626	22,797	8,149	4,680
Supplies	33,619	14,280	14,470	4,869
Insurance	37,509	24,806	4,115	8,588
Other	26,672	25,738	215	719
Travel	5,693	5,693	-	-
Telephone	14,857	7,205	1,936	5,716
Equipment	24,001	2,785	730	20,486
Loss on disposal of assets	2,262	2,262	-	-
	<u>4,070,930</u>	<u>1,782,513</u>	<u>1,535,943</u>	<u>752,474</u>
Total expenses				
REVENUES IN EXCESS OF EXPENSES	<u>\$ 2,648,845</u>	<u>\$ 1,626,425</u>	<u>\$ 902,024</u>	<u>\$ 120,396</u>

See independent auditors' report.

THE AIR FORCE MUSEUM FOUNDATION, INC.

SCHEDULE OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2013

	Total	Other Operations	Museum Store	Theatre
REVENUES				
Merchandise sales	\$ 2,281,768	\$ -	\$ 2,201,448	\$ 80,320
Building and education fund donations	1,117,159	1,089,908	-	27,251
Other gifts and grants	721,392	682,099	38,989	304
Theatre ticket sales	637,821	-	-	637,821
Interest and dividends, net	519,459	519,459	-	-
Membership fees	515,188	515,188	-	-
Memorial park fund	9,033	9,033	-	-
Cafe net sales	134,703	134,703	-	-
Mail order fees, concessions, and other	57,110	30,999	25,252	859
Realized losses on investments, net	<u>(236,035)</u>	<u>(236,035)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>5,757,598</u>	<u>2,745,354</u>	<u>2,265,689</u>	<u>746,555</u>
EXPENSES				
Salaries and wages	1,206,895	658,895	303,184	244,816
Cost of merchandise sold	1,029,148	-	1,017,923	11,225
Service contracts	365,500	304,824	24,780	35,896
Museum program support	186,351	186,351	-	-
Interest expense	172,428	172,428	-	-
Theatre operations	155,963	-	-	155,963
Depreciation and amortization	134,410	44,023	2,622	87,765
Payroll taxes	93,867	48,779	24,920	20,168
Professional services	89,598	88,748	-	850
Bank and card processing fees	85,729	15,289	57,098	13,342
Special events	77,309	67,425	-	9,884
Investment management fees	77,068	77,068	-	-
Printing costs	66,435	66,435	-	-
Shipping and postage	63,104	43,704	19,046	354
Marketing and advertising	55,225	13,087	1,302	40,836
Cafe in-house expenses	43,534	43,534	-	-
Medical and life insurance benefits	36,340	16,488	11,373	8,479
401(k) contributions	34,491	21,613	7,713	5,165
Supplies	34,135	21,325	8,762	4,048
Insurance	31,059	15,421	5,294	10,344
Other	19,975	19,725	(485)	735
Travel	17,649	5,200	-	12,449
Telephone	15,829	4,941	4,858	6,030
Equipment	15,808	2,781	1,910	11,117
Loss on disposal of assets	<u>2,893</u>	<u>2,893</u>	<u>-</u>	<u>-</u>
Total expenses	<u>4,110,743</u>	<u>1,940,977</u>	<u>1,490,300</u>	<u>679,466</u>
REVENUES IN EXCESS OF EXPENSES	<u>\$ 1,646,855</u>	<u>\$ 804,377</u>	<u>\$ 775,389</u>	<u>\$ 67,089</u>

See independent auditors' report.