

# The Air Force Museum Foundation, Inc.

Financial Statements as of and for the  
Years Ended December 31, 2013 and 2012, and  
Independent Auditors' Report

# THE AIR FORCE MUSEUM FOUNDATION, INC.

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## INDEPENDENT AUDITORS' REPORT

The Audit Committee  
The Air Force Museum Foundation, Inc.:

We have audited the accompanying financial statements of The Air Force Museum Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and statements of cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2013 and 2012, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

April 22, 2014

# THE AIR FORCE MUSEUM FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and equivalents	\$ 593,018	\$ 689,130
Investments — at fair value	1,680,922	8,599,104
Interest and dividends receivable	22,251	191,725
Merchandise inventories	298,270	285,461
Current portion of pledges receivable	2,053,525	3,914,400
Prepaid expenses and other assets	<u>104,766</u>	<u>54,370</u>
Total current assets	<u>4,752,752</u>	<u>13,734,190</u>
PROPERTY:		
Leasehold improvements	242,851	
Furniture and equipment	1,899,311	1,741,546
Less accumulated depreciation	<u>(1,193,033)</u>	<u>(1,128,694)</u>
Total property	<u>949,129</u>	<u>612,852</u>
OTHER ASSETS:		
Annuities receivable	26,462	29,559
Capitalized loan costs — net	84,973	-
Investments — at fair value	5,189,414	22,370,242
Pledges receivable — long term	<u>5,904,156</u>	<u>7,023,640</u>
Total other assets	<u>11,205,005</u>	<u>29,423,441</u>
TOTAL	<u>\$ 16,906,886</u>	<u>\$ 43,770,483</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 128,025	\$ 146,988
Accrued liabilities:		
Payroll and sales taxes, and 401(k) contributions	37,786	29,667
Accrued interest	35,340	-
Loans payable — current	1,921,000	-
Financial instruments — current	<u>116,448</u>	<u>-</u>
Total current liabilities	<u>2,238,599</u>	<u>176,655</u>
Loans payable — long term	6,517,500	-
Financial instruments — long term	20,640	-
Deferred revenue	<u>64,630</u>	<u>55,400</u>
Total Liabilities	8,841,369	232,055
NET ASSETS:		
Unrestricted	7,605,008	20,568,167
Temporarily restricted	<u>460,509</u>	<u>22,970,261</u>
Total net assets	<u>8,065,517</u>	<u>43,538,428</u>
TOTAL	<u>\$ 16,906,886</u>	<u>\$ 43,770,483</u>

See notes to financial statements.

# THE AIR FORCE MUSEUM FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Merchandise sales	\$ 2,281,768	\$ -	\$ 2,281,768
Building and education fund donation	230,226	886,933	1,117,159
Other gifts and grants	725,748	-	725,748
Theatre ticket sales	637,821	-	637,821
Interest and dividends - net	520,694	48	520,742
Membership fees	515,188	-	515,188
Increase in memorial park fund	-	3,394	3,394
Café net sales	134,703	-	134,703
Mail order fees, concessions, and other	57,110	-	57,110
Realized losses on investments — net	(236,035)	-	(236,035)
<b>Total revenues</b>	<b><u>4,867,223</u></b>	<b><u>890,375</u></b>	<b><u>5,757,598</u></b>
<b>EXPENSES:</b>			
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	186,351	-	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
Café in-house expenses	43,534	-	43,534
Medical/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 sale of assets	2,893	-	2,893
<b>Total expenses</b>	<b><u>4,110,743</u></b>	<b><u>-</u></b>	<b><u>4,110,743</u></b>
<b>REVENUES IN EXCESS OF EXPENSES</b>	<b>756,480</b>	<b>890,375</b>	<b>1,646,855</b>
<b>RELEASED FROM DONOR RESTRICTIONS</b>	<b>23,400,127</b>	<b>(23,400,127)</b>	<b>-</b>
<b>DONATED TO THE UNITED STATES AIR FORCE</b>	<b>(37,250,184)</b>	<b>-</b>	<b>(37,250,184)</b>
<b>UNREALIZED GAINS ON INVESTMENTS — Net</b>	<b><u>130,418</u></b>	<b><u>-</u></b>	<b><u>130,418</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>(12,963,159)</b>	<b>(22,509,752)</b>	<b>(35,472,911)</b>
<b>NET ASSETS:</b>			
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>

(Continued)

# THE AIR FORCE MUSEUM FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Merchandise sales	\$ 2,539,842	\$ -	\$ 2,539,842
Building and education fund donation	189,184	1,987,269	2,176,453
Other gifts and grants	443,097	-	443,097
Theatre ticket sales	821,626	-	821,626
Interest and dividends	726,537	55	726,592
Membership fees	519,918	-	519,918
Increase in memorial park fund	-	6,722	6,722
Café net sales	70,604	-	70,604
Mail order fees, concessions, and other	47,587	-	47,587
Realized losses on investments — net	(226,887)	-	(226,887)
Total revenues	<u>5,131,508</u>	<u>1,994,046</u>	<u>7,125,554</u>
<b>EXPENSES:</b>			
Salaries and wages	1,288,981	-	1,288,981
Cost of merchandise sold	1,179,690	-	1,179,690
Service contracts	324,613	-	324,613
Museum program support	208,573	-	208,573
Interest expense	-	-	-
Theatre operations	215,673	-	215,673
Depreciation and amortization	42,297	-	42,297
Payroll taxes	101,394	-	101,394
Professional services	48,891	-	48,891
Bank and card processing fees	92,137	-	92,137
Special events	16,990	-	16,990
Investment management fees	93,580	-	93,580
Printing costs	66,324	-	66,324
Shipping and postage	68,126	-	68,126
Marketing and advertising	135,268	-	135,268
Café in-house expenses	47,982	-	47,982
Medical/life insurance benefits	42,154	-	42,154
401(k) contributions	39,547	-	39,547
Supplies	57,092	-	57,092
Insurance	30,270	-	30,270
Other	39,171	-	39,171
Travel	23,152	-	23,152
Telephone	17,200	-	17,200
Equipment	15,097	-	15,097
Loss on sale of assets	4,833	-	4,833
Total expenses	<u>4,199,035</u>	<u>-</u>	<u>4,199,035</u>
REVENUES IN EXCESS OF EXPENSES	932,473	1,994,046	2,926,519
RELEASED FROM DONOR RESTRICTIONS DONATED TO THE UNITED STATES AIR FORCE	-	-	-
UNREALIZED GAINS ON INVESTMENTS — Net	<u>64,277</u>	<u>-</u>	<u>64,277</u>
CHANGE IN NET ASSETS	996,750	1,994,046	2,990,796
<b>NET ASSETS:</b>			
Beginning of year	<u>19,571,417</u>	<u>20,976,215</u>	<u>40,547,632</u>
End of year	<u>\$ 20,568,167</u>	<u>\$ 22,970,261</u>	<u>\$ 43,538,428</u>

See notes to financial statements.

(Concluded)

# THE AIR FORCE MUSEUM FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (35,472,911)	\$ 2,990,796
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on sale of assets	2,893	4,833
Depreciation and amortization	134,410	42,297
Net loss on investments	105,617	162,610
Loss on financial instrument	137,088	-
Change in noncash assets and liabilities:		
Interest and dividends receivable	169,474	(32,924)
Merchandise inventories	(12,809)	44,224
Pledges receivable	2,980,359	2,335,408
Annuity receivable	3,097	2,977
Prepaid expenses, and other assets	(50,396)	46,131
Accounts payable	(18,963)	103,754
Deferred revenues	9,230	(900)
Accrued liabilities	43,459	(15,448)
	<u>(31,969,452)</u>	<u>5,683,758</u>
Net cash (used) provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(32,127,699)	(18,893,227)
Maturities and sales of investments	56,121,092	14,067,324
Capital expenditures	(471,062)	(570,367)
	<u>23,522,331</u>	<u>(5,396,270)</u>
Net cash provided (used) in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term loan payables	8,800,000	-
Payments on long-term loan payables	(361,500)	-
Payments related to loan payable origination fees	(87,491)	-
	<u>8,351,009</u>	<u>-</u>
Net cash provided by financing activities		
CHANGES IN CASH AND EQUIVALENTS	(96,112)	287,488
<b>CASH AND EQUIVALENTS:</b>		
Beginning of year	<u>689,130</u>	<u>401,642</u>
End of year	<u>\$ 593,018</u>	<u>\$ 689,130</u>

See notes to financial statements.



## THE AIR FORCE MUSEUM FOUNDATION, INC.

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Air Force Museum Foundation, Inc.'s (the "Foundation") purpose 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, Café, 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 Not-for-Profit Organizations.

**Cash and 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, 2013, \$351,004 of cash and cash equivalents was covered by federal depository insurance. Cash and cash equivalent are maintained at two financial institution and the fluctuations in the account balances result in deposits that might exceed federal depository insurance limits during the year.

**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 statement of activities under the caption, Realized losses on investments — net. Realized gains or losses from the sale of investment securities are determined using the specific identification method.

**Fair Value Hierarchy** — Financial Accounting Standards Board (FASB) accounting standards codification (ASC) 820, Fair Value Measurements, specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). In accordance with ASC 820, the following summarizes the fair value hierarchy:

*Level 1* — Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

*Level 2* — Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly such as interest rates and yield curves that are observable at commonly quoted intervals;

*Level 3* — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

**Pledge Receivables** — 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 the end of 2013 and 2012 there were no pledges requiring an allowance per Foundation policy.

**Property** — Property is stated at cost. Leasehold improvements, equipment and computer equipment and are depreciated or amortized using the straight-line method over thirty-nine years, eight years and five years, respectively. Management evaluates the carrying value of its Property for impairment by assessing recoverability based on forecasted operating cash flows on an undiscounted basis in accordance with FASB ASC Topic 360, Property, Plant, Equipment. No indication of impairment existed at December 31, 2013 or 2012.

**Capitalized Loan Costs** — During the year 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 Statement of Financial Position and are being amortized over the life of the two loans which is four and seven years.

**Deferred Revenues** — Membership fees relating to the costs associated with two and three-year memberships are deferred and recognized into income during the period in which the services are provided.

**Revenues** — Pledges, gifts, grants, and membership fees are recorded at present value as received, pledged or as they become receivable. Merchandise sales and Theatre ticket sales are recorded upon receipt.

**Memberships** — The Foundation offers one, two, and three-year memberships. Revenues derived from the performance of service for these memberships are recognized in the period in which the services are provided. Fundraising expenses related to memberships were \$281,400 and \$281,159 in 2013 and 2012, respectively.

**Estimates** — The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tax Status** — The Foundation is a tax-exempt organization 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 net income during 2013 or 2012.

**Subsequent Events** — The Foundation has evaluated subsequent events through April 22, 2014, the date the financial statements were available for issuance, to determine if either recognition or disclosure of significant events or transactions is required. Based on this evaluation, we are not aware of any events or transactions that would require recognition or disclosure in the financial statements.

## 2. MERCHANDISE INVENTORIES

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Gifts	\$ 87,768	\$ 106,165
Books	101,927	97,026
Prints	8,864	10,971
Models	10,741	15,567
Donated items	44,445	24,495
Audio Visual	30,184	14,805
Other	<u>14,341</u>	<u>16,432</u>
 Total inventory	 <u>\$ 298,270</u>	 <u>\$ 285,461</u>

## 3. 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, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
Money market securities	\$ 1,680,922	\$ 422,313
U.S. government obligations	5,187,371	24,421,435
Common stocks	2,043	-
 Mutual funds:		
Government bonds	-	776,957
U.S. Treasury	-	2,345,326
Other	<u>-</u>	<u>1,320,824</u>
 Total mutual funds	 -	 4,443,107
 Corporate bonds	 <u>-</u>	 <u>1,682,491</u>
 Total investments	 6,870,336	 30,969,346
 less current investments	 <u>1,680,922</u>	 <u>8,599,104</u>
 Total long term investments	 <u>\$ 5,189,414</u>	 <u>\$ 22,370,242</u>

In accordance with ASC 820, all of the Foundation's available-for-sale securities are classified as Level 1 or Level 2. Financial assets utilizing Level 1 inputs included money market securities such as money market deposits, cash equivalents, and other investment with quoted prices available for identical items in active markets, such as registered mutual funds, publicly-traded equities, and U.S. Treasuries. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Financial assets utilizing Level 2 inputs included U.S.

Agency obligations. The Foundation does not have any financial assets requiring classification as a Level 3 investment.

The fair values of the investments are primarily based on investments traded in active markets. For those that are not traded in active markets, the fair value is determined using quantitative market comparison models that require the use of multiple market inputs including interest rates, prices and indices to generate pricing and volatility factors, which are used to value the asset. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. There were no transfers between level 1 and level 2 during 2013 and 2012 and no changes in valuation method to determine leveling. The following table sets forth the financial instruments carried at fair value within the ASC 820 hierarchy and using the lowest level of input as of December 31, 2013 and 2012:

<b>2013</b>	<b>Financial Instruments Carried at Fair Value</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Assets:			
Money market securities	\$ 1,680,922	\$ -	\$ 1,680,922
U.S. Treasury obligations	5,187,371	-	5,187,371
U.S. Agency obligations	-	-	-
Commons stock	2,043	-	2,043
Corporate bonds	-	-	-
Total assets	<u>\$ 6,870,336</u>	<u>\$ -</u>	<u>\$ 6,870,336</u>
<b>2012</b>	<b>Financial Instruments Carried at Fair Value</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Assets:			
Money market securities	\$ 422,313	\$ -	\$ 422,313
U.S. Treasury obligations	18,636,021	-	18,636,021
U.S. Agency obligations	-	5,785,414	5,785,414
Commons stock	4,443,107	-	4,443,107
Corporate bonds	<u>1,682,491</u>	<u>-</u>	<u>1,682,491</u>
Total assets	<u>\$ 25,183,932</u>	<u>\$ 5,785,414</u>	<u>\$ 30,969,346</u>

Investment management fees for 2013 and 2012 totaled \$77,068 and \$93,580, respectively.

#### **4. PLEDGES RECEIVABLE**

The Foundation records pledges receivable at present value, which is \$7,957,681 and \$10,938,040 at December 31, 2013 and 2012, respectively.

The following is a schedule of the amounts receivable by year as of December 31, 2013:

<b>Years Ending</b>	<b>Pledges Receivable at NPV</b>
<b>December 31</b>	
2014	\$ 2,053,525
2015	1,457,000
2016	1,083,000
2017	1,033,000
2018	1,012,000
Thereafter	<u>2,000,000</u>
	8,638,525
Less imputed interest	<u>(680,844)</u>
	<u>\$ 7,957,681</u>

## 5. FINANCIAL INSTRUMENTS

FASB ASC Topic 815, *Derivatives and Hedging*, requires that entities recognize all derivatives within the scope of FASB ASC Topic 815 as either assets or liabilities at fair market value. On September 5, 2013, the Foundation entered into an interest rate swap for protection from the effects of fluctuating interest rates on a loan for \$7,000,000 that extends 84 months. Under this swap, the Foundation pays a fixed rate of 3.3% and receives a floating rate that resets monthly based on LIBOR. The initial principal loan value was \$7,000,000 and as of December 31, 2013, this amount was outstanding. During 2012, the Company did not have a loan nor an interest rate swap agreement outstanding.

The outstanding interest rate swap is not designated as hedges 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 Statement of Activities. These transactions were executed in 2013.

As of December 31, 2013, the Foundation recorded an unrealized loss on derivatives to reflect the interest rate swap at fair market value. The interest rate swap is marked to market as derivatives, and changes in their fair value are presented in change of net assets. The liability for outstanding derivatives of \$137,088 is recorded in Financial instruments – current and long term within the Statement of Financial Position and the portion of this liability relating to interest to be paid by the Foundation is reflected in interest expense within the Statement of Activities.

	<u>December 31, 2013</u>		
	<b>Stated Interest Rate</b>	<b>Notional Amount</b>	<b>Market Value</b>
Expiration Date			
May 1, 2020	3.30%	\$ 7,000,000	\$ (137,088)

The Company's interest rate swap is recorded on the Company's Statement of Financial Position at fair values based on market values from identical or comparable transactions. The fair value of the Company's interest rate swap are based on observable inputs (Level 2) from comparable market transactions. The use of significant unobservable inputs (Level 3) was not necessary in determining the fair value of the Company's financial assets and liabilities.

## 6. LOANS PAYABLE

Loans payable consisted of the following as of December 31, 2013:

First Financial – Loan 1	\$ 1,438,500
First Financial – Loan 2	<u>7,000,000</u>
Total	8,438,500
Less current	<u>1,921,000</u>
Total long term loans payable	<u>\$ 6,517,500</u>

The Foundation executed two loans 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 4<sup>th</sup> 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, as of December 31, 2013, a large portion of these pledged funds are still receivable to the organization and recorded as current and long term receivables. The Foundation's assets, excluding cash and investments of \$6,918,581 as of December 31, 2013, are pledged as collateral for the loan payables. The Foundation shall maintain pledged receivables in an amount exceeding the outstanding indebtedness due and owing on the First Term Loan and Second Term Loan. The First Term Loan bears an interest rate of London InterBank Offered Rate (LIBOR) plus 1.25% and has a maturity date of June 2017. The Second Term Loan bears an interest rate of LIBOR plus 1.25% and has a maturity date of May 2020.

The schedule for annual principle payments on loans payable, as of December 31, 2013, for the next five years will be as follows.

<b>Years Ending December 31</b>	<b>Principle Payments</b>
2014	\$ 1,921,000
2015	1,389,500
2016	1,083,000
2017	1,033,000
2018	1,012,000
Thereafter	2,000,000

## 7. EMPLOYEE BENEFIT PLAN

The Foundation provides a 401(k) profit sharing plan (“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 2013 and 2012, 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 \$34,491 and \$39,547 in 2013 and 2012, respectively.

## 8. 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, 2013 and 2012, the Foundation donated cash and investments for the following:

	<b>2013</b>	<b>2012</b>
Museum utilities	\$ 42,000	\$ -
Construction of 4th building expansion	<u>37,208,184</u>	<u>-</u>
Total cash and investments donated to United States Air Force	<u>\$ 37,250,184</u>	<u>\$ -</u>

## 9. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets consist primarily of contributions accepted by the Foundation for the building fund. During the year, the building fund was donated to the United States Air Force Gift Fund, for the construction of the “4th Building Expansion Project” addition to the Museum. The summary of the temporarily restricted net assets as of December 31, 2013 and 2012, is as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 261,507	\$ 185,491
Pledges receivable	199,002	10,938,040
Investments — at fair value	<u>-</u>	<u>11,846,730</u>
Total temporarily restricted net assets	<u>\$ 460,509</u>	<u>\$ 22,970,261</u>

## 10. EXPANSION PROJECT

Although the primary funding for the expansion project was gifted to United States Air Force during the year, the Foundation continues its fund-raising 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. \$23.4 million in temporarily restricted net assets and \$13.8 million in board designated unrestricted net assets have already been paid toward the project. The Foundation will continue fund-raising efforts to provide approximately \$4 million in 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 future operations. There were no fund-raising expenses related to external professional services in 2013 or 2012.

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