

The Air Force Museum Foundation, Inc.

Financial Statements for the Years Ended
December 31, 2011 and 2010, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The Air Force Museum Foundation, Inc. (the "Foundation") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Foundation at December 31, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 23, 2012

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2011 AND 2010

	2011			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
ASSETS				
CURRENT ASSETS:				
Cash and equivalents	\$ 401,642	\$ 389,615	\$ (848)	\$ 12,875
Investments — at fair value	6,553,324	6,553,324		
Interest and dividends receivable	158,801	158,801		
Merchandise inventories	329,685		329,685	
Current portion of prepaid theater lease costs	0			
Current portion of pledges receivable	3,538,548	3,538,548		
Other receivables, prepaid expenses, and other assets	<u>100,501</u>	<u>37,135</u>	<u>24,349</u>	<u>39,017</u>
Total current assets	<u>11,082,501</u>	<u>10,677,423</u>	<u>353,186</u>	<u>51,892</u>
PROPERTY:				
Furniture and equipment	1,226,714	590,401	286,992	349,321
Less accumulated depreciation	<u>(1,137,099)</u>	<u>(525,673)</u>	<u>(265,559)</u>	<u>(345,867)</u>
Total property	<u>89,615</u>	<u>64,728</u>	<u>21,433</u>	<u>3,454</u>
OTHER ASSETS:				
Annuities receivable	32,536	32,536		
Investments — at fair value	19,752,729	19,752,729		
Pledges receivable	<u>9,734,900</u>	<u>9,734,900</u>		
Total other assets	<u>29,520,165</u>	<u>29,520,165</u>		
TOTAL	<u>\$40,692,281</u>	<u>\$40,262,316</u>	<u>\$ 374,619</u>	<u>\$ 55,346</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 43,234	\$ 17,876	\$ 11,195	\$ 14,163
Accrued liabilities:				
Payroll and sales taxes, and 401(k) contributions	41,155	10,848	24,544	5,763
Film rights payable	<u>3,960</u>			<u>3,960</u>
Total current liabilities	<u>88,349</u>	<u>28,724</u>	<u>35,739</u>	<u>23,886</u>
DEFERRED REVENUE	<u>56,300</u>	<u>56,300</u>		
NET ASSETS:				
Unrestricted	19,571,417	19,201,077	338,880	31,460
Temporarily restricted	<u>20,976,215</u>	<u>20,976,215</u>		
Total net assets	<u>40,547,632</u>	<u>40,177,292</u>	<u>338,880</u>	<u>31,460</u>
TOTAL	<u>\$40,692,281</u>	<u>\$40,262,316</u>	<u>\$ 374,619</u>	<u>\$ 55,346</u>

See notes to financial statements.

	2010			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
ASSETS				
CURRENT ASSETS:				
Cash and equivalents	\$ 327,959	\$ 312,361	\$ 3,685	\$ 11,913
Investments — at fair value	6,395,526	6,395,526		
Interest and dividends receivable	135,334	135,334		
Merchandise inventories	260,519		260,519	
Current portion of prepaid theater lease costs	27,724			27,724
Current portion of pledges receivable	1,124,930	1,124,930		
Other receivables, prepaid expenses, and other assets	<u>87,874</u>	<u>23,791</u>	<u>28,741</u>	<u>35,342</u>
Total current assets	<u>8,359,866</u>	<u>7,991,942</u>	<u>292,945</u>	<u>74,979</u>
PROPERTY:				
Furniture and equipment	1,236,414	579,386	306,823	350,205
Less accumulated depreciation	<u>(1,142,307)</u>	<u>(527,154)</u>	<u>(273,988)</u>	<u>(341,165)</u>
Total property	<u>94,107</u>	<u>52,232</u>	<u>32,835</u>	<u>9,040</u>
OTHER ASSETS:				
Annuities receivable	35,399	35,399		
Investments — at fair value	17,005,036	17,005,036		
Pledges receivable	<u>4,086,149</u>	<u>4,086,149</u>		
Total other assets	<u>21,126,584</u>	<u>21,126,584</u>	<u>-</u>	
TOTAL	<u>\$29,580,557</u>	<u>\$29,170,758</u>	<u>\$ 325,780</u>	<u>\$ 84,019</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 34,129	\$ 20,329	\$ 4,861	\$ 8,939
Accrued liabilities:				
Payroll and sales taxes, and 401(k) contributions	25,751	5,710	14,109	5,932
Film rights payable	<u>4,565</u>			<u>4,565</u>
Total current liabilities	<u>64,445</u>	<u>26,039</u>	<u>18,970</u>	<u>19,436</u>
DEFERRED REVENUE	<u>69,000</u>	<u>69,000</u>		
NET ASSETS:				
Unrestricted	18,868,686	18,497,293	306,810	64,583
Temporarily restricted	<u>10,578,426</u>	<u>10,578,426</u>		
Total net assets	<u>29,447,112</u>	<u>29,075,719</u>	<u>306,810</u>	<u>64,583</u>
TOTAL	<u>\$29,580,557</u>	<u>\$29,170,758</u>	<u>\$ 325,780</u>	<u>\$ 84,019</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenues:				
Merchandise sales	\$ 2,383,803	\$	\$2,383,803	\$
Other gifts and grants	296,156	239,657	56,499	
Ticket sales	826,495			826,495
Interest and dividends	594,311	594,311		
Membership fees	446,691	446,691		
Restaurant rentals	123,139	123,139		
Mail order fees, concessions, and other	29,437		26,437	3,000
Realized losses on investments — net	(174,261)	(174,261)		
Total unrestricted revenues	<u>4,525,771</u>	<u>1,229,537</u>	<u>2,466,739</u>	<u>829,495</u>
Expenses:				
Cost of merchandise sold	1,126,097		1,126,097	
Salaries	805,097	46,257	541,398	217,442
Development — including salaries	287,697	287,697		
Membership — including salaries	234,763	234,763		
Theater operations	186,089			186,089
Service contracts	162,221	42,829	34,462	84,930
Museum operations	150,715	150,715		
Bank charges	83,222	6,222	62,671	14,329
Payroll taxes	70,382	3,701	45,977	20,704
Advertising	65,623		1,705	63,918
Depreciation	34,947	17,031	12,330	5,586
Insurance	28,985	7,750	12,743	8,492
Other	28,632	12,789	3,960	11,883
Restaurant expense	27,098	27,098		
Shipping and postage	25,643		25,426	217
401(k) contributions	23,662	4,418	14,091	5,153
Professional services	21,780	21,780		
Supplies	21,510	511	18,908	2,091
Medical/Life Insurance Benefits	19,972	11	12,128	7,833
Equipment	14,943	2,054	840	12,049
Telephone	14,110	490	6,771	6,849
Educational grants				
Total unrestricted expenses	<u>3,433,188</u>	<u>866,116</u>	<u>1,919,507</u>	<u>647,565</u>
REVENUES IN EXCESS OF EXPENSES	1,092,583	363,421	547,232	181,930
UNREALIZED LOSSES ON INVESTMENTS — Net	(266,006)	(266,006)		
TRANSFER TO MEMORIAL PARK FUND	(112,232)	(112,232)		
PROPERTY DONATED TO THE U.S. AIR FORCE MUSEUM	(11,614)	(11,614)		
CHANGE IN UNRESTRICTED NET ASSETS	<u>702,731</u>	<u>(26,431)</u>	<u>547,232</u>	<u>181,930</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Building and Education fund donations	10,277,146	10,277,146		
Interest income	72	72		
Transfer to Memorial Park Fund	112,232	112,232		
Increase in Memorial Park Fund	8,339	8,339		
Increase in temporarily restricted net assets	<u>10,397,789</u>	<u>10,397,789</u>		
CHANGE IN NET ASSETS	11,100,520	10,371,358	547,232	181,930
NET ASSETS:				
Beginning of year	29,447,112	29,075,719	306,810	64,583
Interfund transfers		730,215	(515,162)	(215,053)
End of year	<u>\$40,547,632</u>	<u>\$40,177,292</u>	<u>\$ 338,880</u>	<u>\$ 31,460</u>

See notes to financial statements.

	2010			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenues:				
Merchandise sales	\$ 2,444,824	\$ -	\$2,444,824	\$ -
Other gifts and grants	966,606	966,606		
Ticket sales	896,913			896,913
Interest and dividends	625,739	625,739		
Membership fees	509,818	509,818		
Restaurant rentals	123,592	123,592		
Mail order fees, concessions, and other	22,586	8	21,649	929
Realized losses on investments — net	(46,769)	(46,769)		
Total unrestricted revenues	5,543,309	2,178,994	2,466,473	897,842
Expenses:				
Cost of merchandise sold	1,165,012		1,165,012	
Salaries	736,042		523,908	212,134
Membership — including salaries	322,352	322,352		
Theater operations	229,771			229,771
Museum operations	223,221	223,221		
Development — including salaries	216,660	216,660		
Service contracts	173,086	45,502	32,226	95,358
Bank charges	83,263	6,609	62,222	14,432
Advertising	67,481		1,285	66,196
Payroll taxes	67,394		45,809	21,585
Depreciation	33,852	14,972	12,407	6,473
Restaurant expense	27,891	27,891		
Other	27,627	8,176	5,010	14,441
Insurance	26,315	7,751	11,041	7,523
Professional services	26,065	26,065		
401(k) contributions	25,713	5,141	16,000	4,572
Shipping and postage	21,108		20,721	387
Supplies	16,188	1,072	13,029	2,087
Equipment	15,601	2,438	397	12,766
Telephone	14,107	914	6,995	6,198
Educational grants	9,794	9,794		
Total unrestricted expenses	3,528,543	918,558	1,916,062	693,923
REVENUES IN EXCESS OF EXPENSES	2,014,766	1,260,436	550,411	203,919
UNREALIZED GAINS ON INVESTMENTS — Net	210,494	210,494		
PROPERTY DONATED TO THE U.S. AIR FORCE MUSEUM	(750,000)	(750,000)		
CHANGE IN UNRESTRICTED NET ASSETS	1,475,260	720,930	550,411	203,919
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Building fund donations	5,110,094	5,110,094		
Interest income	72	72		
Increase in temporarily restricted net assets	5,110,166	5,110,166	-	-
CHANGE IN NET ASSETS	6,585,426	5,831,096	550,411	203,919
NET ASSETS:				
Beginning of year	22,861,686	22,401,329	306,011	154,346
Interfund transfers	-	843,294	(549,612)	(293,682)
End of year	\$29,447,112	\$29,075,719	\$ 306,810	\$ 64,583

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	\$ 11,100,520	\$ 10,371,358	\$ 547,232	\$ 181,930
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Loss on sale of property	484	484		
Depreciation	34,464	16,548	12,330	5,586
Net gain on investments	806,907	806,907		
Amortization — prepaid theater lease costs	27,724			27,724
Change in noncash assets and liabilities:				
Interest and dividends receivable	(23,467)	(23,467)		
Merchandise inventories	(69,166)		(69,166)	
Pledges receivable	(8,062,369)	(8,062,369)		
Annuity receivable	2,863	2,863		
Other receivables, prepaid expenses, and other assets	(12,627)	(13,344)	4,392	(3,675)
Accounts payable	9,105	(2,453)	6,334	5,224
Deferred revenues	(12,700)	(12,700)		
Accrued liabilities	14,799	5,138	10,435	(774)
Net cash provided by operating activities	<u>3,816,537</u>	<u>3,088,965</u>	<u>511,557</u>	<u>216,015</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment purchases	(10,847,705)	(10,847,705)		
Maturities and sales of investments	7,135,307	7,135,307		
Capital expenditures	<u>(30,456)</u>	<u>(29,528)</u>	<u>(928)</u>	
Net cash used in investing activities	<u>(3,742,854)</u>	<u>(3,741,926)</u>	<u>(928)</u>	
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	73,683	(652,961)	510,629	216,015
INTERFUND TRANSFERS		730,215	(515,162)	(215,053)
CASH AND EQUIVALENTS:				
Beginning of year	<u>327,959</u>	<u>312,361</u>	<u>3,685</u>	<u>11,913</u>
End of year	<u>\$ 401,642</u>	<u>\$ 389,615</u>	<u>\$ (848)</u>	<u>\$ 12,875</u>

See notes to financial statements.

	2010			
	Total	General Fund	Souvenir Shop Fund	Theater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	\$ 6,585,426	\$ 5,831,096	\$ 550,411	\$ 203,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	33,852	14,972	12,407	6,473
Net gain on investments	(163,724)	(163,724)		
Amortization — prepaid theater lease costs	83,172			83,172
Change in noncash assets and liabilities:				
Interest and dividends receivable	41,117	41,117		
Merchandise inventories	2,924		2,924	
Pledges receivable	(4,868,376)	(4,868,376)		
Annuity receivable	2,752	2,752		
Other receivables, prepaid expenses, and other assets	(1,804)	(54)	(4,413)	2,663
Accounts payable	(795)	6,015	(7,575)	765
Deferred revenues	(2,960)	(2,960)		
Accrued liabilities	3,997	(67)	1,022	3,042
Net cash provided by operating activities	<u>1,715,581</u>	<u>860,771</u>	<u>554,776</u>	<u>300,034</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment purchases	(12,517,519)	(12,517,519)		
Maturities and sales of investments	10,920,383	10,920,383		
Capital expenditures	(19,789)	(19,000)		(789)
Net cash used in investing activities	<u>(1,616,925)</u>	<u>(1,616,136)</u>		<u>(789)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	98,656	(755,365)	554,776	299,245
INTERFUND TRANSFERS	-	843,294	(549,612)	(293,682)
CASH AND EQUIVALENTS:				
Beginning of year	<u>229,303</u>	<u>224,432</u>	<u>(1,479)</u>	<u>6,350</u>
End of year	<u>\$ 327,959</u>	<u>\$ 312,361</u>	<u>\$ 3,685</u>	<u>\$ 11,913</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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 are accounted for in three separate funds (1) the general fund, which includes restaurant operations, investment activities and Museum operations; (2) a fund for the operation of the souvenir shop; and (3) a fund for the operation of the IMAX Theatre and MORPHIS flight simulator. The Foundation follows the accounting procedures as set forth in the AICPA 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. On December 31, 2011, \$388,376 of cash and cash equivalents was covered by federal depository insurance. Cash and cash equivalent are maintained at one institution and the fluctuations in the account balances 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, Unrealized gains, and losses on investments — net. Realized gains or losses from the sale of investment securities are determined using the specific identification method.

Fair Value Hierarchy — ASC 820 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.

Film Rights — Film rights are leased with monthly payments based on the prior month's film revenues.

Property — Property is stated at cost. Equipment and computer equipment is depreciated using the straight-line method over eight years and five years, respectively.

Revenues — Pledges, gifts, grants, and membership fees are recorded at their present value as received, pledged or as they become receivable.

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 \$234,763 and \$322,352 in 2011 and 2010, 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 2011 or 2010.

Subsequent Events — The Foundation has evaluated subsequent events through April 23, 2012, 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 our consolidated financial statements.

2. MERCHANDISE INVENTORIES

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Gifts	\$ 118,542	\$ 103,386
Books	114,136	118,314
Prints	8,964	9,162
Models	15,675	18,890
Donated Items	42,495	-
Other	<u>29,873</u>	<u>10,767</u>
Total inventory	<u>\$ 329,685</u>	<u>\$ 260,519</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, 2011 and 2010, consist of the following:

	2011	2010
Money market securities	\$ 781,534	\$ 1,435,938
U.S. government obligations	22,032,142	18,187,490
Common stocks	2,869,361	3,163,738
Corporate bonds	<u>623,016</u>	<u>613,396</u>
	<u>\$ 26,306,053</u>	<u>\$ 23,400,562</u>

In accordance with ASC 820, all of the Foundation's available-for-sale securities are classified as Level 1 or Level 2. As of December 31, 2011, 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 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, 2011 and 2010:

2011	Financial Instruments Carried at Fair Value		
	Level 1	Level 2	Total
Assets:			
Money market securities	\$ 781,534	\$	\$ 781,534
U.S. Treasury obligations	14,683,651		14,683,651
U.S. Agency obligations	112,950	7,235,541	7,348,491
Commons stock	2,869,361		2,869,361
Corporate bonds	<u>623,016</u>		<u>623,016</u>
Total assets	<u>\$ 19,070,512</u>	<u>\$ 7,235,541</u>	<u>\$ 26,306,053</u>

2010	Financial Instruments Carried at Fair Value		
	Level 1	Level 2	Total
Assets:			
Money market securities	\$ 1,435,938	\$ -	\$ 1,435,938
U.S. Agency obligations		11,149,296	11,149,296
U.S. Treasury obligations	7,038,194		7,038,194
Commons stock	3,163,738		3,163,738
Corporate bonds	<u>613,396</u>		<u>613,396</u>
Total assets	<u>\$ 12,251,266</u>	<u>\$ 11,149,296</u>	<u>\$ 23,400,562</u>

Investment management fees for 2011 and 2010 totaled \$82,815 and \$78,098, respectively, and are netted against interest and dividends.

4. PLEDGES RECEIVABLE

The Foundation records pledges receivable at present value, which is \$13,273,448 and \$5,211,079 at December 31, 2011 and 2010, respectively.

The following is a schedule of the amounts receivable by year:

Years Ending December 31	
2012	\$ 3,538,548
2013	3,312,250
2014	1,307,150
2015	1,280,485
2016	1,000,000
Thereafter	<u>4,000,000</u>
	14,438,433
Less imputed interest	<u>(1,164,985)</u>
	<u>\$ 13,273,448</u>

5. 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.

6. LEASING ACTIVITIES

On April 4, 2001, the Foundation signed an amendment to the theater lease agreement to lease theater equipment for a 10-year period. In addition, the Foundation agreed to upgrade the projector and the reel unit for \$150,000 additional lease cost, paid in 2002. The total lease costs of \$821,008 were amortized on the straight-line method over the lease term, which began in May 2001 and ended in April 2011. On April 20, 2011, the Foundation signed an amendment to the theater lease agreement, operating lease, to lease theater equipment for a 1-year period to expire in April 2012. The total cost of \$70,000 is paid monthly over the life of the lease, with \$29,167 to be paid out during 2012.

7. 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. The Foundation matched 75% of the employees' contribution, up to 6% 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 \$23,662 and \$25,713 in 2011 and 2010, respectively.

8. PROPERTY 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 USAF. Funds for capital improvements of \$11,614 and \$750,000 in 2011 and 2010, respectively, were donated to the USAF.

9. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets consist primarily of contributions accepted by the Foundation for the building fund. The building fund will be donated to the USAF gift fund, for the construction of the “Expansion Project” addition to the Museum. The first two buildings in this project were completed in 2003 and 2004, respectively.

10. EXPANSION PROJECT

The Foundation continues its fund-raising efforts for the expansion of the Museum. The campaign expects to raise the necessary funds for a 224,000 sq. ft. facility to house three new galleries. The U.S. Army Corps of Engineers (“CoE”) has estimated the expansion effort to cost \$48 million. The U.S. Air Force has adopted this estimate. \$20.8 million in temporarily restricted net assets and \$14.2 million from the Foundation operations are already available toward the project. All funds raised will be donated to the USAF 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 Foundation future operations. There were no fund-raising expenses related to external professional services in 2011 or 2010.

* * * * *