

THE AIR FORCE MUSEUM FOUNDATION, INC.
(A Nonprofit Foundation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

THE AIR FORCE MUSEUM FOUNDATION, INC.

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YEARS ENDED DECEMBER 31, 2015 AND 2014

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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 statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and 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 audits 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 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were 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 audits 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 2, 2016

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,693,776	\$ 1,860,773
Investments - at fair value	226,333	1,125,810
Interest and dividends receivable	20,267	9
Merchandise inventories	254,919	265,140
Current portion of pledges receivable	904,215	1,557,285
Prepaid expenses and other assets	<u>101,876</u>	<u>82,031</u>
	<u>3,201,386</u>	<u>4,891,048</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	242,851	242,851
Furniture and equipment	<u>1,619,906</u>	<u>1,636,975</u>
	1,862,757	1,879,826
Less accumulated depreciation	<u>1,176,701</u>	<u>1,022,977</u>
	<u>686,056</u>	<u>856,849</u>
OTHER ASSETS		
Annuities receivable	19,893	23,242
Capitalized loan costs, net	54,757	69,865
Investments - at fair value	6,807,989	4,646,830
Pledges receivable - long-term	<u>3,741,870</u>	<u>4,689,474</u>
	<u>10,624,509</u>	<u>9,429,411</u>
	<u>\$ 14,511,951</u>	<u>\$ 15,177,308</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 92,768	\$ 109,123
Accrued liabilities		
Payroll and sales taxes, and 401(k) contributions	144,583	147,094
Accrued interest	14,071	17,668
Notes payable - current	602,700	1,387,250
Interest rate swap liability - current	<u>60,480</u>	<u>92,762</u>
Total current liabilities	914,602	1,753,897
Notes payable - long-term	4,045,000	5,128,000
Interest rate swap liability - long-term	36,744	32,669
Deferred revenue	<u>85,912</u>	<u>77,230</u>
Total liabilities	<u>5,082,258</u>	<u>6,991,796</u>
NET ASSETS		
Unrestricted	8,596,551	7,558,673
Temporarily restricted	<u>833,142</u>	<u>626,839</u>
	<u>9,429,693</u>	<u>8,185,512</u>
	<u>\$ 14,511,951</u>	<u>\$ 15,177,308</u>

See notes to financial statements.

THE AIR FORCE MUSEUM FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Merchandise sales	\$ 2,586,722	\$ -	\$ 2,586,722
Building and education fund donations	119,161	737,946	857,107
Other gifts and grants	794,043	1,868	795,911
Theatre ticket sales	872,894	-	872,894
Interest and dividends, net	77,291	-	77,291
Membership fees	485,476	-	485,476
Memorial park fund	-	8,732	8,732
Cafe net sales	253,515	-	253,515
Mail order fees, concessions, and other	86,652	-	86,652
Realized gains on investments, net	32,885	-	32,885
	<u>5,308,639</u>	<u>748,546</u>	<u>6,057,185</u>
EXPENSES			
Salaries and wages	1,318,031	-	1,318,031
Cost of merchandise sold	1,079,405	-	1,079,405
Service contracts	133,264	-	133,264
Museum program support	212,962	4,948	217,910
Interest expense, net	156,184	-	156,184
Theatre operations	303,763	-	303,763
Depreciation and amortization	183,428	-	183,428
Payroll taxes	98,602	-	98,602
Professional services	50,788	-	50,788
Bank and card processing fees	81,786	-	81,786
Special events	72,125	-	72,125
Investment management fees	4,876	-	4,876
Printing costs	79,178	-	79,178
Shipping and postage	64,995	-	64,995
Marketing and advertising	36,922	-	36,922
Cafe in-house expenses	35,577	-	35,577
Medical and life insurance benefits	31,343	-	31,343
401(k) contributions	41,133	-	41,133
Supplies	34,113	-	34,113
Insurance	22,581	-	22,581
Other	37,511	-	37,511
Travel	8,342	-	8,342
Telephone	12,552	-	12,552
Equipment	22,778	-	22,778
Loss on disposal of assets	2,586	-	2,586
	<u>4,124,825</u>	<u>4,948</u>	<u>4,129,773</u>
REVENUE IN EXCESS OF EXPENSES	1,183,814	743,598	1,927,412
RELEASED FROM DONOR RESTRICTIONS	537,295	(537,295)	-
DONATED TO THE UNITED STATES AIR FORCE	(563,183)	-	(563,183)
UNREALIZED LOSS ON INVESTMENTS, NET	(120,048)	-	(120,048)
CHANGE IN NET ASSETS	1,037,878	206,303	1,244,181
NET ASSETS			
Beginning of year	<u>7,558,673</u>	<u>626,839</u>	<u>8,185,512</u>
End of year	<u>\$ 8,596,551</u>	<u>\$ 833,142</u>	<u>\$ 9,429,693</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
REVENUE			
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
Total revenues	<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, net	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
Total expenses	<u>4,052,614</u>	<u>18,316</u>	<u>4,070,930</u>
REVENUE 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.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES		
Change in net assets	\$ 1,244,181	\$ 119,995
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	183,428	189,717
Change in net present value of pledge receivables	(160,396)	(192,318)
Net (gain) loss on investments	87,163	(172,558)
Unrealized gain on interest rate swap liability	(28,207)	(11,658)
Transfer property to expenses	44,788	-
Loss on sale and disposal of property and equipment	2,586	2,262
	<u>1,373,543</u>	<u>(64,560)</u>
Changes in operating assets and liabilities:		
Interest and dividends receivable	(20,258)	22,242
Merchandise inventories	10,221	33,130
Pledges receivable	1,761,070	1,903,240
Annuity receivable	3,349	3,220
Prepaid expenses, and other assets	(19,845)	22,735
Accounts payable	(16,356)	(18,902)
Deferred revenues	8,682	12,600
Accrued liabilities	(6,108)	91,636
	<u>3,094,298</u>	<u>2,005,341</u>
Net Cash and Cash Equivalents Provided by Operating Activities		
INVESTING ACTIVITIES		
Purchases of investments	(7,325,792)	(5,452,344)
Maturities and sales of investments	5,976,948	6,722,598
Purchases of property and equipment	(45,601)	(84,590)
Proceeds from sale of property	700	-
	<u>(1,393,745)</u>	<u>1,185,664</u>
Net Cash and Cash Equivalents Provided (Used) by Investing Activities		
FINANCING ACTIVITIES		
Principal payments on notes payable	(1,867,550)	(1,923,250)
	<u>(1,867,550)</u>	<u>(1,923,250)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(166,997)	1,267,755
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,860,773</u>	<u>593,018</u>
End of year	<u>\$ 1,693,776</u>	<u>\$ 1,860,773</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 187,989</u>	<u>\$ 240,442</u>

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.

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, 2015 and 2014, 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.

The Foundation reviews for impairment of long-lived assets in accordance with accounting standards. These standards require companies to determine if changes in circumstances indicate that the carrying amount of its long-lived assets may not be recoverable. If a change in circumstances warrants such an evaluation, undiscounted future cash flows from the use and ultimate disposition of the asset, as well as respective market values, are estimated to determine if an impairment exists. Management believes that there has been no impairment of the carrying value of its long-lived assets at December 31, 2015 and 2014.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 on investments, net and Unrealized Gain (Loss), net. Realized gains or losses from the sale of investment securities are determined using the specific identification method.

Concentrations - Financial instruments that potentially subject the Foundation to credit risk consist of pledges receivable. For the years ended December 31, 2015 and 2014, approximately 90% and 89% of the undiscounted pledges receivable, or \$4,500,000 and \$6,000,000, represents pledges from one party.

The Foundation's cash and cash equivalents were maintained at a single financial institution and exceeded the federal depository insurance limit of \$250,000 for each of the years ended December 31, 2015 and 2014.

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 - The Foundation incurred \$87,491 of fees for the origination of the pledge loans. 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 each of the years ended December 31, 2015 and 2014 was \$15,108. Accumulated amortization was \$32,734 and \$17,626 as of December 31, 2015 and 2014, respectively.

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

2016	\$	15,108
2017		13,552
2018		10,439
2019		10,439
2020		<u>5,219</u>
	\$	<u>54,757</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 revenue during the period in which the services are provided. Expenses related to memberships were \$260,576 and \$250,915 for the years ended December 31, 2015 and 2014, respectively.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue - 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 for the years ended December 31, 2015 and 2014.

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 \$68,002 and \$21,586, 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, 2015 and 2014, 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 for the years ended December 31, 2015 and 2014.

Accounting for Uncertainty in Income Taxes - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Foundation's tax returns, to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. This statement provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. Based on its review, management does not believe the Foundation has taken any material uncertain tax positions, including any position that would place the Foundation's exempt status in jeopardy, as of December 31, 2015.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 2, 2016, the date the financial statements were available to be issued.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B - MERCHANDISE INVENTORIES

	<u>2015</u>	<u>2014</u>
Gifts	\$ 98,414	\$ 99,502
Books	62,089	65,750
Prints	7,978	8,364
Models	11,252	10,783
Donated items	38,489	40,684
Audio visual	10,468	18,893
Other	<u>26,229</u>	<u>21,164</u>
	<u>\$ 254,919</u>	<u>\$ 265,140</u>

NOTE C - PLEDGES RECEIVABLE

The Foundation records pledges receivable at present value using a present value rate ranging from 1.0% to 3.5%. Pledges receivable are \$4,646,085 and \$6,246,759 at December 31, 2015 and 2014, respectively. 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:

<u>Years Ending December 31:</u>	<u>Pledges Receivable</u>
2016	\$ 904,215
2017	1,058,000
2018	1,012,000
2019	1,000,000
2020	<u>1,000,000</u>
	4,974,215
Less discount to net present value	<u>328,130</u>
	<u>\$ 4,646,085</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE D - INVESTMENTS

In 2015, the Foundation successfully revamped its investment program and, leveraging a competitive process, changed investment advisors to more effectively align their investment approach and portfolio with the Foundation Strategic Financial Plan. This change was approved by the Board of Trustees. 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, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Money market securities	<u>\$ 77,046</u>	<u>\$ 1,125,810</u>
Common stocks	<u>1,929,884</u>	<u>-</u>
Mutual funds		
Large Cap U.S. equity fund	106,511	2,023,948
International equity fund	-	420,033
Alternative investments	202,786	-
Fixed income funds	<u>4,718,095</u>	<u>2,202,849</u>
Total mutual funds	<u>5,027,392</u>	<u>4,646,830</u>
Total investments	7,034,322	5,772,640
Less current investments	<u>226,333</u>	<u>1,125,810</u>
	<u>\$ 6,807,989</u>	<u>\$ 4,646,830</u>

Investment management fees for the years ended December 31, 2015 and 2014 totaled \$4,876 and \$5,000, respectively.

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.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE E - FAIR VALUE - continued

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, 2015.

Money market securities, mutual funds, and common stock: Value of these investments at year-end is based on quoted market prices.

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 for the years ended December 31, 2015 and 2014.

Fair values of the Foundation's financial assets and liabilities measured on a recurring basis at December 31, 2015 and 2014:

	2015		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Assets			
Money market securities	\$ 77,046	\$ 77,046	\$ -
Common stocks	1,929,884	1,929,884	-
Mutual funds	<u>5,027,392</u>	<u>5,027,392</u>	-
	<u>\$ 7,034,322</u>	<u>\$ 7,034,322</u>	<u>\$ -</u>
Liabilities			
Interest rate swap liability	<u>\$ 97,224</u>	<u>\$ -</u>	<u>\$ 97,224</u>
	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>\$ 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 F - NOTES PAYABLE

The Foundation executed two notes with a financial institution in 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 also executed in 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) (0.43% and 0.17% at December 31, 2015 and 2014) 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
First Financial - Loan 1	\$ 147,700	\$ 515,250
First Financial - Loan 2	<u>4,500,000</u>	<u>6,000,000</u>
	4,647,700	6,515,250
Less current maturities	<u>602,700</u>	<u>1,387,250</u>
	<u>\$ 4,045,000</u>	<u>\$ 5,128,000</u>

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

<u>Years Ending December 31:</u>	<u>Principal Payments</u>
2016	\$ 602,700
2017	1,045,000
2018	1,000,000
2019	1,000,000
2020	<u>1,000,000</u>
	<u>\$ 4,647,700</u>

During 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.

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F - NOTES PAYABLE - continued

Accordingly, at December 31, 2015 and 2014, the Foundation recorded an unrealized gain or (loss) on the interest rate swap of \$28,207 and \$11,658, 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, 2015 and 2014 of \$97,224 and \$125,431, 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.

Interest expense for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Gross interest expense	\$ 184,391	\$ 222,771
Less mark to market unrealized gain	\$ (28,207)	\$ (11,658)
Net interest expense	<u>\$ 156,184</u>	<u>\$ 211,113</u>

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. For the years ended December 31, 2015 and 2014, 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 Trustees of the Foundation. The Foundation's expense under the Plan was \$41,133 and \$35,626 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the Foundation donated cash and investments for the following:

	<u>2015</u>	<u>2014</u>
Construction of 4th building expansion	<u>\$ 563,183</u>	<u>\$ 2,688,781</u>

THE AIR FORCE MUSEUM FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I - TEMPORARILY 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 516,011	\$ 407,942
Pledges receivable	<u>317,131</u>	<u>218,897</u>
	<u>\$ 833,142</u>	<u>\$ 626,839</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. Through 2014, \$24.2 million in temporarily restricted net assets and \$15.7 million in board designated unrestricted net assets were paid toward the project. During 2015, additional funds totaling \$0.5 million were paid toward the project; of which, \$0.2 million were previously temporarily restricted net assets and \$0.3 million were board designated unrestricted net assets.

As the 4th Building Project was nearly complete December 31, 2015, with the grand opening scheduled for June 2016, the Foundation's fundraising efforts to provide additional funding to the Museum for additional building requirements have begun to wind down. Additional costs may be funded at the discretion of the Board of Trustees of the Foundation from the Foundation's future operations. There were no fundraising expenses related to external professional services for the years ended December 31, 2015 and 2014.

THE AIR FORCE MUSEUM FOUNDATION, INC.

SCHEDULE OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Total	Other Operations	Museum Store	Theatre
REVENUE				
Merchandise sales	\$ 2,586,722	\$ -	\$ 2,541,715	\$ 45,007
Building and education fund donations	857,107	817,977	-	39,130
Other gifts and grants	795,911	792,538	3,373	-
Theatre ticket sales	872,894	-	-	872,894
Interest and dividends, net	77,291	77,291	-	-
Membership fees	485,476	485,476	-	-
Memorial park fund	8,732	8,732	-	-
Cafe net sales	253,515	253,515	-	-
Mail order fees, concessions, and other	86,652	42,094	31,223	13,335
Realized gains on investments, net	32,885	32,885	-	-
Total revenues	<u>6,057,185</u>	<u>2,510,508</u>	<u>2,576,311</u>	<u>970,366</u>
EXPENSES				
Salaries and wages	1,318,031	745,347	315,073	257,611
Cost of merchandise sold	1,079,405	-	1,073,394	6,011
Service contracts	133,264	87,583	18,511	27,170
Museum program support	217,910	217,910	-	-
Interest expense	156,184	156,184	-	-
Theatre operations	303,763	-	-	303,763
Depreciation and amortization	183,428	74,573	909	107,946
Payroll taxes	98,602	50,469	26,089	22,044
Professional services	50,788	49,773	165	850
Bank and card processing fees	81,786	12,397	52,507	16,882
Special events	72,125	45,656	346	26,123
Investment management fees	4,876	4,876	-	-
Printing costs	79,178	79,178	-	-
Shipping and postage	64,995	44,448	18,906	1,641
Marketing and advertising	36,922	31,758	1,638	3,526
Cafe in-house expenses	35,577	35,577	-	-
Medical and life insurance benefits	31,343	14,518	8,653	8,172
401(k) contributions	41,133	28,098	8,573	4,462
Supplies	34,113	10,964	18,026	5,123
Insurance	22,581	12,866	3,147	6,568
Other	37,511	34,984	1,430	1,097
Travel	8,342	8,219	-	123
Telephone	12,552	6,862	1,807	3,883
Equipment	22,778	3,158	913	18,707
Loss on disposal of assets	2,586	2,586	-	-
Total expenses	<u>4,129,773</u>	<u>1,757,984</u>	<u>1,550,087</u>	<u>821,702</u>
REVENUE IN EXCESS OF EXPENSES	<u>\$ 1,927,412</u>	<u>\$ 752,524</u>	<u>\$ 1,026,224</u>	<u>\$ 148,664</u>

See independent auditors' report.

THE AIR FORCE MUSEUM FOUNDATION, INC.

SCHEDULE OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Total	Other Operations	Museum Store	Theatre
REVENUE				
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				
REVENUE 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.