

HAIGH, BYRD & LAMBERT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1007 HAY STREET

POST OFFICE BOX 53349

FAYETTEVILLE, NORTH CAROLINA 28305

INDEPENDENT AUDITORS' REPORT

January 28, 2008

To the Board of Trustees of
Airborne and Special Operations Museum Foundation
Fayetteville, North Carolina

We have audited the accompanying statement of financial position of Airborne and Special Operations Museum Foundation (a nonprofit corporation) as of September 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Airborne and Special Operations Museum Foundation as of September 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION

Fayetteville, North Carolina

FINANCIAL STATEMENTS

For the year ended September 30, 2007

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION

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AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF FINANCIAL POSITION
September 30, 2007

EXHIBIT A

ASSETS

| | |
|--------------------------------|-------------------------------|
| Cash and cash equivalents | \$ 285,313.01 |
| Prepaid expenses | 44,308.92 |
| Contributions receivable | 142,681.55 |
| Inventories | 177,431.32 |
| Endowment funds held by others | 20,514.06 |
| Property and equipment, net | <u>883,892.10</u> |
| Total assets | <u><u>\$ 1,554,140.96</u></u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|-------------------------------|
| Liabilities: | |
| Accounts payable | \$ 16,603.63 |
| Accrued expenses | 8,494.26 |
| Funds held on behalf of others | 8,594.02 |
| Line of credit | 50,000.00 |
| Capital lease obligation | <u>304,484.89</u> |
| Total liabilities | <u>388,176.80</u> |
| Net assets: | |
| Unrestricted: | |
| Undesignated | 829,298.61 |
| Designated for museum support | <u>180,184.00</u> |
| Total unrestricted | <u>1,009,482.61</u> |
| Temporarily restricted | 142,681.55 |
| Permanently restricted | <u>13,800.00</u> |
| Total net assets | <u>1,165,964.16</u> |
| Total liabilities and net assets | <u><u>\$ 1,554,140.96</u></u> |

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF ACTIVITIES
For the year ended September 30, 2007

EXHIBIT B

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|---------------------------|---------------------------|-----------------|
| Support, revenues, gains and reclassifications: | | | | |
| Pledges and contributions | \$ 233,483.27 | \$ 185,332.64 | \$ 900.00 | \$ 419,715.91 |
| Paver and memorial sales | 65,748.32 | - | - | 65,748.32 |
| Memberships | 6,825.00 | - | - | 6,825.00 |
| Governmental contracts and grants: | | | | |
| Funding - Cumberland County | - | 164,000.00 | - | 164,000.00 |
| Funding - Tourism & Development | - | 51,736.00 | - | 51,736.00 |
| Use of museum facilities | 30,048.00 | - | - | 30,048.00 |
| Museum gift shop sales | 515,203.06 | - | - | 515,203.06 |
| Simulator / theatre ticket sales | 125,883.07 | - | - | 125,883.07 |
| Interest income | 8,543.63 | - | - | 8,543.63 |
| Loss on disposal of assets | (107,776.50) | - | - | (107,776.50) |
| Other income | 1,338.38 | - | - | 1,338.38 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 305,736.00 | (305,736.00) | - | - |
| Expiration of time restrictions | 72,100.00 | (72,100.00) | - | - |
| Total support, revenues and gains | 1,257,132.23 | 23,232.64 | 900.00 | 1,281,264.87 |
| Operating expenses: | | | | |
| Program services | 888,183.52 | - | - | 888,183.52 |
| Administrative and general | 234,820.00 | - | - | 234,820.00 |
| Fundraising | 55,290.78 | - | - | 55,290.78 |
| Museum gift shop cost of sales | 267,789.45 | - | - | 267,789.45 |
| Total operating expenses | 1,446,083.75 | - | - | 1,446,083.75 |
| Other gains/losses: | | | | |
| Increase in fair value of funds held by others | 2,451.54 | - | - | 2,451.54 |
| Change in net assets | (186,499.98) | 23,232.64 | 900.00 | (162,367.34) |
| Net assets - beginning of year (restated) | 1,195,982.59 | 119,448.91 | 12,900.00 | 1,328,331.50 |
| Net assets - end of year | ##### | \$ 142,681.55 | \$ 13,800.00 | \$ 1,165,964.16 |

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF CASH FLOWS
For the year ended September 30, 2007

EXHIBIT C

| | |
|---|----------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (162,367.34) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 187,228.76 |
| Donation of assets to Army | 33,150.47 |
| Loaa on disposal of assets | 107,776.50 |
| Unrealized gain on funds held by others | (2,451.54) |
| Changes in: | |
| Prepaid expenses | (25,819.39) |
| Contributions receivable | (23,232.64) |
| Inventories | (43,191.41) |
| Accounts payable | 5,017.90 |
| Accrued expenses | (9,095.94) |
| Funds held for others | 8,594.02 |
| Net cash provided by operating activities | <u>75,609.39</u> |
| Cash flows from investing activities: | |
| Purchase of property and equipment | (78,191.00) |
| Contributions to funds held by others | (900.00) |
| Net cash used by investing activities | <u>(79,091.00)</u> |
| Cash flows from financing activities: | |
| Proceeds from line of credit | 50,000.00 |
| Capital lease payments | (40,515.11) |
| Net cash provided by financing activities | <u>9,484.89</u> |
| Net increase in cash | 6,003.28 |
| Cash and cash equivalents - beginning of year | <u>279,309.73</u> |
| Cash and cash equivalents - end of year | <u>\$ 285,313.01</u> |
| Supplemental Disclosure of Cash Flow Information: | |
| Cash paid during the year for interest | \$ 15,223.69 |
| Supplemental Disclosure of Noncash Investing and Financing Activities: | |
| Purchase of equipment with proceeds of capital lease obligation | \$ 345,000.00 |

AIRBORNE MUSEUM
CASHFLOW WORKSHEET

| | <u>9/30/07</u> | <u>9/30/06</u> | <u>DIFF</u> | |
|---------------------|---------------------|---------------------|---------------------|-----------------|
| CASH | 285,313.01 | 279,309.73 | (6,003.28) | (1) |
| PREPAIDS | 44,308.92 | 18,489.53 | (25,819.39) | (2) |
| SALES TAX A/R | - | - | - | (3) |
| CONTRIB A/R | 142,681.55 | 119,448.91 | (23,232.64) | SEE SPLIT BELOW |
| GRANT A/R | - | - | - | |
| INVENTORIES | 177,431.32 | 134,239.91 | (43,191.41) | (4) |
| INVESTMENTS | - | - | - | (5) |
| ENDOW | 20,514.06 | 17,162.52 | (3,351.54) | SEE SPLIT BELOW |
| PROP & EQUIP | 883,892.10 | 788,856.83 | (95,035.27) | SEE SPLIT BELOW |
| TOTAL ASSETS | <u>1,554,140.96</u> | <u>1,357,507.43</u> | <u>(196,633.53)</u> | |
| | | | | |
| A/P | 16,603.63 | 11,585.73 | 5,017.90 | (6) |
| ACCRUED EXP | 8,494.26 | 17,590.20 | (9,095.94) | (7) |
| FUNDS HELD FOR OTF | 8,594.02 | - | 8,594.02 | (8) |
| LTD | 50,000.00 | - | 50,000.00 | (9) |
| CAPITAL LEASE | 304,484.89 | - | 304,484.89 | |
| EQUITY | 1,165,964.16 | 1,328,331.50 | (162,367.34) | (10) |
| | <u>1,554,140.96</u> | <u>1,357,507.43</u> | <u>196,633.53</u> | |

FIXED ASSETS SPLIT:

| | | |
|---------------------------|--------------------|------|
| CY ADDITIONS TO F/A | (78,191.00) | (11) |
| DEPRECIATION | 187,228.76 | (12) |
| DONATION OF BLDG | 33,150.47 | |
| PURCHASE W/ CAPITAL LEASE | (345,000.00) | |
| GAIN / LOSS ON SALE | 107,776.50 | |
| | <u>(95,035.27)</u> | |

CAPITAL LEASE OBLIG

| | |
|---------------------------|-------------------|
| PAYMENTS ON LEASE | (40,515.11) |
| PURCHASE W/ CAPITAL LEASE | <u>345,000.00</u> |
| | 304,484.89 |

CONTRIBUTIONS RECEIVABLE

| | | |
|------------------------------|--------------------|------|
| PROVISION FOR UNCOLL PLEDGES | 18,668.45 | (13) |
| CHANGE IN CONTRIB A/R | <u>(41,901.09)</u> | (14) |
| | <u>(23,232.64)</u> | |

ENDOWMENT SPLIT:

| | | |
|---------------------------------------|-----------------|------|
| CONTRIBUTIONS TO FUNDS HELD BY OTHERS | 900.00 | (6) |
| UNREALIZED GAIN ON FUNDS | <u>2,451.54</u> | (15) |
| | <u>3,351.54</u> | |

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended September 30, 2007

EXHIBIT D

| | Program Services | Administrative and General | Fundraising | Total |
|--------------------------------------|----------------------|-------------------------------|---------------------|------------------------|
| Advertising | \$ 214,533.32 | \$ - | \$ - | \$ 214,533.32 |
| Bank charges | 12,848.87 | 4,433.50 | 544.12 | 17,826.49 |
| Depreciation | 183,209.24 | 3,492.65 | 526.87 | 187,228.76 |
| Dues and subscriptions | 2,285.00 | 570.00 | - | 2,855.00 |
| Employee benefits | 5,650.68 | 2,825.87 | 426.28 | 8,902.83 |
| Exhibit expense | 4,580.26 | - | - | 4,580.26 |
| Collections | 7,030.12 | - | - | 7,030.12 |
| Bad debt expense | 742.50 | - | - | 742.50 |
| Fundraising expenses | - | - | 1,073.54 | 1,073.54 |
| Event/rental expense | 5,683.00 | 520.00 | 670.00 | 6,873.00 |
| Grounds maintenance | 35,466.00 | - | - | 35,466.00 |
| Insurance | 13,946.85 | 39,227.98 | - | 53,174.83 |
| Interest expense | 15,223.69 | - | - | 15,223.69 |
| Meetings and travel | 20.00 | - | - | 20.00 |
| Miscellaneous | 4,171.32 | 11,129.33 | - | 15,300.65 |
| Office expenses and equipment rental | 5,364.82 | 3,180.13 | - | 8,544.95 |
| Paver and memorial costs | 20,875.00 | - | 13,076.21 | 33,951.21 |
| Postage and shipping | 5,343.47 | 3,105.51 | 1,900.22 | 10,349.20 |
| Printing and supplies | 1,414.63 | 9,048.79 | - | 10,463.42 |
| Professional fees | - | 13,500.00 | 15,624.84 | 29,124.84 |
| Repairs and maintenance | 18,248.52 | 1,705.65 | - | 19,954.17 |
| Salaries and wages | 201,838.86 | 100,938.23 | 15,226.59 | 318,003.68 |
| Taxes | 16,644.71 | 8,323.90 | 1,255.67 | 26,224.28 |
| Telephone and utilities | 7,343.73 | 3,672.54 | 554.01 | 11,570.28 |
| Volunteer expenses | 2,943.10 | 1,471.82 | 222.03 | 4,636.95 |
| Web expenses - Roll Call | 1,228.05 | - | - | 1,228.05 |
| Ground lease | 12,961.81 | - | - | 12,961.81 |
| Donation to Army | 33,150.47 | - | - | 33,150.47 |
| In-kind rent | 55,435.50 | 27,674.10 | 4,190.40 | 87,300.00 |
| Subtotal | <u>888,183.52</u> | <u>234,820.00</u> | <u>55,290.78</u> | <u>1,178,294.30</u> |
| Museum gift shop cost of sales | - | - | - | 267,789.45 |
| Total expenses | <u>\$ 888,183.52</u> | <u>\$ 234,820.00</u> | <u>\$ 55,290.78</u> | <u>\$ 1,446,083.75</u> |

AIRBORNE MUSEUM
EXPENSE ALLOCATIONS
9/30/07

UNADJUSTED BALANCES (ALLOC PER CLIENT SHEET - ATTACHED)

| | PROGRAM | MGT & GEN | FUNDRAISING | TOTAL | |
|-----------------------------|---------------------|-------------------|-------------------|---------------------|----|
| 501 GIFT SHOP COST OF SALES | 267,776.04 | | | 267,776.04 | 26 |
| 503 SHRINKAGE | 6,585.33 | | | 6,585.33 | 26 |
| 504 PAVER & MEM COSTS | | | 38,451.21 | 38,451.21 | 14 |
| 510 CASH SHORT / OVER | 112.46 | 81.22 | | 193.68 | 26 |
| 515 SALES TAX EXPENSE | - | - | | - | 26 |
| 602 SALARIES | 158,474.69 | 159,528.99 | - | 318,003.68 | 20 |
| 610 OFFICE / EQUIP RENTAL | 5,364.82 | 3,180.13 | | 8,544.95 | 13 |
| 611 SIMULATOR/THEATER LEASE | 71,447.92 | | - | 71,447.92 | 1 |
| 612 ROLL CALL - WEB EXP | 1,228.05 | | - | 1,228.05 | 24 |
| 615 PRINTING & SUPPLIES | 1,414.63 | 9,048.79 | - | 10,463.42 | 16 |
| 618 DEPRECIATION | 177,852.24 | 4,495.68 | 703.92 | 183,051.84 | 3 |
| 620 EQUIP REPAIRS / MAINT | 7,454.72 | 3,041.70 | | 10,496.42 | 19 |
| 621 THEATRE / SIM MAINT | 10,846.75 | | | 10,846.75 | 19 |
| 623 GROUNDS MAINT | 35,466.00 | | | 35,466.00 | 8 |
| 624 PENALTIES | - | - | | - | 27 |
| 625 PROF FEES | - | 13,500.00 | 30,824.84 | 44,324.84 | 17 |
| 628 POSTAGE & SHIPPING | 8,441.37 | 4,905.95 | 3,001.88 | 16,349.20 | 15 |
| 631 TAXES & LICENSES | - | - | | - | 21 |
| 634 TELEPHONE & UTILITIES | - | 11,570.28 | | 11,570.28 | 22 |
| 635 INTEREST | | | | - | 10 |
| 638 MEETINGS & TRAVEL | 20.00 | - | - | 20.00 | 11 |
| 639 TRAVEL | | - | | - | 11 |
| 640 DUES & SUBSCRIPTIONS | 2,285.00 | 570.00 | | 2,855.00 | 4 |
| 630 TAXES - PAYROLL | | 26,244.28 | | 26,244.28 | 21 |
| 644 INSURANCE | 13,946.85 | 41,183.63 | | 55,130.48 | 9 |
| 645 EMPLOYEE BENEFITS | 11,225.86 | (2,393.39) | 70.36 | 8,902.83 | 5 |
| 655 BANK CHARGES | 12,848.87 | 4,433.50 | 544.12 | 17,826.49 | 2 |
| 658 BAD DEBT EXP | | | | - | 18 |
| 660 COF LEASE - 2% | 9,668.74 | | | 9,668.74 | 28 |
| 670 EDUCATION | 4,580.26 | | | 4,580.26 | 6 |
| 675 MARKETING & ADV | 200,727.53 | | 43,680.00 | 244,407.53 | 1 |
| 678 FUNDRAISING EXP | | | - | - | 7 |
| 680 MISCELLANEOUS | 25,068.61 | 11,129.33 | | 36,197.94 | 12 |
| 960 REFUNDABLE SALES TAX | 22,998.97 | (22,178.34) | | 820.63 | 26 |
| 690 FUNDRAISING EXP | | | 25,695.00 | 25,695.00 | 7 |
| 695 EVENT / RENTAL EXP | 5,683.00 | 520.00 | 670.00 | 6,873.00 | 7 |
| 697 VOLUNTEER BENEFITS | 4,636.95 | | | 4,636.95 | 23 |
| 840 ARMY SUPPORT | 31,044.75 | | 714.83 | 31,759.58 | |
| 999 UNDISTRIBUTED | | | | - | 12 |
| | <u>1,097,200.41</u> | <u>268,861.75</u> | <u>144,356.16</u> | <u>1,510,418.32</u> | |

AIRBORNE MUSEUM
EXPENSE ALLOCATIONS
9/30/07

ADJUSTED BALANCES

| | PROGRAM | MGT & GEN | FUNDRAISING | TOTAL | |
|-----------------------------|---------------------|-------------------|-------------------|---------------------|----|
| 501 GIFT SHOP COST OF SALES | 261,010.44 | | | 261,010.44 | 26 |
| 503 SHRINKAGE | 6,585.33 | | | 6,585.33 | 26 |
| 504 PAVER & MEM COSTS | | | 38,451.21 | 38,451.21 | 14 |
| 510 CASH SHORT / OVER | 112.46 | 81.22 | | 193.68 | 26 |
| 515 SALES TAX EXPENSE | 31,327.79 | - | | 31,327.79 | 26 |
| 602 SALARIES | 158,474.69 | 159,528.99 | - | 318,003.68 | 20 |
| 610 OFFICE / EQUIP RENTAL | 5,364.82 | 3,180.13 | | 8,544.95 | 13 |
| 611 SIMULATOR/THEATER LEASE | 15,709.12 | | - | 15,709.12 | 1 |
| 612 ROLL CALL - WEB EXP | 1,228.05 | | - | 1,228.05 | 24 |
| 615 PRINTING & SUPPLIES | 1,414.63 | 9,048.79 | - | 10,463.42 | 16 |
| 618 DEPRECIATION | 183,209.24 | 3,492.65 | 526.87 | 187,228.76 | 3 |
| 620 EQUIP REPAIRS / MAINT | 7,454.72 | 1,705.65 | | 9,160.37 | 19 |
| 621 THEATRE / SIM MAINT | 10,846.75 | | | 10,846.75 | 19 |
| 623 GROUNDS MAINT | 35,466.00 | | | 35,466.00 | 8 |
| 624 PENALTIES | - | - | | - | 27 |
| 625 PROF FEES | - | 13,500.00 | 30,824.84 | 44,324.84 | 17 |
| 628 POSTAGE & SHIPPING | 8,441.37 | 4,905.95 | 3,001.88 | 16,349.20 | 15 |
| 631 TAXES & LICENSES | - | - | | - | 21 |
| 634 TELEPHONE & UTILITIES | - | 11,570.28 | | 11,570.28 | 22 |
| 635 INTEREST | 15,223.69 | | | 15,223.69 | 10 |
| 638 MEETINGS & TRAVEL | 20.00 | | - | 20.00 | 11 |
| 639 TRAVEL | | - | | - | 11 |
| 640 DUES & SUBSCRIPTIONS | 2,285.00 | 570.00 | | 2,855.00 | 4 |
| 630 TAXES - PAYROLL | | 26,244.28 | | 26,244.28 | 21 |
| 644 INSURANCE | 13,946.85 | 41,183.63 | | 55,130.48 | 9 |
| 645 EMPLOYEE BENEFITS | 11,225.86 | (2,393.39) | 70.36 | 8,902.83 | 5 |
| 655 BANK CHARGES | 12,848.87 | 4,433.50 | 544.12 | 17,826.49 | 2 |
| 658 BAD DEBT EXP | 742.50 | | | 742.50 | 18 |
| 660 COF LEASE - 2% | 9,668.74 | | | 9,668.74 | 28 |
| 670 EDUCATION | 4,580.26 | | | 4,580.26 | 6 |
| 675 MARKETING & ADV | 200,727.53 | | 43,680.00 | 244,407.53 | 1 |
| 678 FUNDRAISING EXP | | | - | - | 7 |
| 680 MISCELLANEOUS | 25,068.61 | 11,129.33 | | 36,197.94 | 12 |
| 960 REFUNDABLE SALES TAX | 22,998.97 | (22,178.34) | | 820.63 | 26 |
| 690 FUNDRAISING EXP | | | 25,695.00 | 25,695.00 | 7 |
| 695 EVENT / RENTAL EXP | 5,683.00 | 520.00 | 670.00 | 6,873.00 | 7 |
| 697 VOLUNTEER BENEFITS | 4,636.95 | | | 4,636.95 | 23 |
| 840 ARTIFACTS | 7,030.12 | | - | 7,030.12 | |
| 999 UNDISTRIBUTED | | | | - | 12 |
| | <u>1,063,332.36</u> | <u>266,522.67</u> | <u>143,464.28</u> | <u>1,473,319.31</u> | |

AIRBORNE MUSEUM
 EXPENSE ALLOCATIONS
 9/30/07

ADJUSTED BALANCES

| PROGRAM | MGT & GEN | FUNDRAISING | TOTAL | |
|-----------------------------|---------------------|-------------------|------------------|---------------------|
| 611 SIMULATOR/THEATER LEASE | 15,709.12 | - | 15,709.12 | 1 |
| 675 MARKETING & ADV | 198,824.20 | - | 198,824.20 | 1 |
| 655 BANK CHARGES | 12,848.87 | 4,433.50 | 17,286.49 | 2 |
| 618 DEPRECIATION | 183,209.24 | 3,492.65 | 187,228.76 | 3 based on payroll |
| 640 DUES & SUBSCRIPTIONS | 2,285.00 | 570.00 | 2,855.00 | 4 |
| 645 EMPLOYEE BENEFITS | 5,650.68 | 2,825.87 | 8,902.83 | 5 based on payroll |
| 670 EDUCATION | 4,580.26 | | 4,580.26 | 6 |
| 678 FUNDRAISING EXP | | - | - | 7 |
| 690 FUNDRAISING EXP | | 1,073.54 | 1,073.54 | 7 |
| 695 EVENT / RENTAL EXP | 5,683.00 | 520.00 | 6,873.00 | 7 |
| 623 GROUNDS MAINT | 35,466.00 | | 35,466.00 | 8 |
| 644 INSURANCE | 13,946.85 | 39,227.98 | 53,174.83 | 9 |
| 635 INTEREST | 15,223.69 | | 15,223.69 | 10 |
| 638 MEETINGS & TRAVEL | 20.00 | - | 20.00 | 11 |
| 639 TRAVEL | | - | - | 11 |
| 680 MISCELLANEOUS | 4,171.32 | 11,129.33 | 15,300.65 | 12 |
| 999 UNDISTRIBUTED | | | - | 12 |
| 610 OFFICE / EQUIP RENTAL | 5,364.82 | 3,180.13 | 8,544.95 | 13 |
| 504 PAVER & MEM COSTS | 20,875.00 | | 20,875.00 | 14 |
| 628 POSTAGE & SHIPPING | 5,343.47 | 3,105.51 | 10,349.20 | 15 |
| 615 PRINTING & SUPPLIES | 1,414.63 | 9,048.79 | 10,463.42 | 16 |
| 625 PROF FEES | - | 13,500.00 | 13,500.00 | 17 |
| 658 BAD DEBT EXP | 742.50 | | 742.50 | 18 |
| 620 EQUIP REPAIRS / MAINT | 7,401.77 | 1,705.65 | 9,107.42 | 19 |
| 621 THEATRE / SIM MAINT | 10,846.75 | | 10,846.75 | 19 |
| 602 SALARIES | 201,838.86 | 100,938.23 | 318,003.68 | 20 |
| 631 TAXES & LICENSES | - | - | - | 21 |
| 630 TAXES - PAYROLL | 16,644.71 | 8,323.90 | 26,224.28 | 21 |
| 634 TELEPHONE & UTILITIES | 7,343.73 | 3,672.54 | 11,570.28 | 22 |
| 697 VOLUNTEER BENEFITS | 2,943.10 | 1,471.82 | 4,636.95 | 23 |
| 618 ROLL CALL - WEB EXP | 1,228.05 | | 1,228.05 | 24 |
| 501 GIFT SHOP COST OF SALES | 261,010.44 | | 261,010.44 | 26 |
| 503 SHRINKAGE | 6,585.33 | | 6,585.33 | 26 |
| 510 CASH SHORT / OVER | 193.68 | | 193.68 | 26 |
| 515 SALES TAX EXPENSE | 31,327.79 | - | 31,327.79 | 26 net w/ income |
| 960 REFUNDABLE SALES TAX | 820.63 | - | 820.63 | 26 net w/ income |
| 624 PENALTIES | - | - | - | 27 |
| 660 COF LEASE - 2% | 12,961.81 | | 12,961.81 | 28 |
| 840 ARTIFACTS | 7,030.12 | | 7,030.12 | |
| 835 DONATION OF BLDG | 33,150.47 | | 33,150.47 | |
| 865 IN-KIND RENT | 55,435.50 | 27,674.10 | 87,300.00 | based on payroll |
| | <u>1,188,121.39</u> | <u>234,820.00</u> | <u>55,290.78</u> | <u>1,478,232.17</u> |

| | |
|--|-------------------------|
| Available for future periods | \$ 25,196.51 |
| Total | <u>\$ 25,196.51</u> |
| Gross unconditional promises to give | \$ 25,300.00 |
| Less: | |
| Allowance for uncollectible pledges | (12.00) |
| Unamortized discount | <u>(91.49)</u> |
| Net unconditional promises to give | <u>\$ 25,196.51</u> |
| Amounts due in: | |
| Less than one year | \$ 24,700.00 |
| One to five years | <u>600.00</u> |
| Total | <u>\$ 25,300.00</u> |
| Museum gift shop items | \$ 134,200.00 |
| Pavers and unit memorials | <u>7,972.00</u> |
| Total | <u>\$ 142,172.00</u> |
| Museum building | \$ 18,695,583.98 |
| Theater and simulator | 1,650,073.75 |
| Equipment | <u>346,835.01</u> |
| | 20,692,492.74 |
| Less: Accumulated depreciation | <u>(2,714,382.07)</u> |
| Total | <u>\$ 17,978,110.67</u> |
| City of Fayetteville development loan and ground lease | \$ 5,283,579.72 |
| Less: Current portion | <u>(1,127,720.69)</u> |
| Total long-term debt, net of current portion | <u>\$ 4,155,859.03</u> |

Fiscal year:

| | |
|-------------------------|-------------------------------|
| 2004 | \$ 1,127,720.69 |
| 2005 | 364,204.39 |
| 2006 | 385,437.50 |
| 2007 | 407,908.51 |
| 2008 | 431,689.58 |
| Thereafter through 2011 | <u>2,566,619.05</u> |
| Total | <u><u>\$ 5,283,579.72</u></u> |

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Airborne and Special Operations Museum Foundation (the Foundation) was incorporated as a nonprofit organization, under the laws of North Carolina on January 22, 1991. The purpose of the Foundation is to assist the Army in the operation of a military museum which focuses on the history of the Army's Airborne and Special Operations forces. The Foundation is supported primarily through donor contributions and grants, gift shop sales, and theater/simulator ticket sales.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Income taxes - The Foundation is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Financial statement presentation - The Foundation has adopted the provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations." Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets

Funds over which the governing board has discretionary control and which are available for current operations and other purposes.

Temporarily restricted net assets

Funds restricted by donors. Also, contributions restricted by time (i.e. pledges to be received in future years) have been classified as temporarily restricted.

Permanently restricted

Net assets that are required by donor stipulation or by law to be maintained in perpetuity by the Foundation.

Cash and equivalents - For purpose of the Statement of Cash Flows, the Foundation considers all highly liquid investments to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - continued

Contributions - The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions of unconditional promises to give with payments due in future periods are also reported as temporarily restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Foundation reports the fair value of gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Property and Equipment - All acquisitions of property and equipment in excess of \$200, and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives.

Collections - Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the Statement of Activities. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the absence or existence and nature of donor-imposed restrictions.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses - The costs of providing Foundation programs and the administration of the Foundation have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Inventories - Items available for resale in the Foundation's gift shop are stated at the lower of cost (first-in, first-out) or net realizable value. The Foundation purchased pavers for its memorial garden. If the donor gives a specific donation the Foundation has the donor's name engraved on the pavers. The pavers are reflected at cost.

Advertising Costs - Advertising costs are expensed as incurred and were \$214,533.32 during the year ended September 30, 2007.

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2007 are available for the following purposes:

| | |
|------------------------------|----------------------|
| Available for future periods | <u>\$ 142,681.55</u> |
|------------------------------|----------------------|

NOTE 3 CONTRIBUTIONS RECEIVABLE

Included in contributions receivable in the Statement of Financial Position, are the following unconditional promises to give:

| | |
|--------------------------------------|----------------------|
| Gross unconditional promises to give | \$ 161,350.00 |
| Less: | |
| Allowance for uncollectible pledges | (2,019.50) |
| Unamortized discount | <u>(16,648.95)</u> |
| Net unconditional promises to give | <u>\$ 142,681.55</u> |
| | |
| Amounts due in: | |
| Less than one year | \$ 58,350.00 |
| One to five years | <u>84,331.55</u> |
| Total | <u>\$ 142,681.55</u> |

Interest rates used for discounting future pledge receipts ranged from 5 percent to 6 percent.

NOTE 4 DONATED FACILITIES AND SERVICES

Contributed services are recognized in the financial statements when they create or enhance long-lived assets, or, require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although, a substantial number of volunteers have donated a significant amount of time to the Foundation's operations, no amounts have been reflected in the accompanying financial statements for contributed services since the requirements of recognition were not met.

The Foundation occupies space within the Airborne and Special Operations Museum. No rent is paid by the Foundation. The estimated fair value of the annual rent of \$87,300.00 is included in contributions and expenses in the statement of activities.

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 5 GOVERNMENTAL AWARDS

The County of Cumberland, North Carolina, paid \$164,000.00 to the Foundation under a contract dated July 1, 2006. These funds are to be used to operate the museum and are recognized as temporarily restricted support in the accompanying Statement of Activities. All of the County funding was expended during the year ended September 30, 2007 for museum operations.

NOTE 6 ENDOWMENT FUNDS HELD BY OTHERS

During the year ended September 30, 2003, the Foundation opened an endowment fund with Cumberland Community Foundation, Inc. identified as the ASOMF Endowment. Distributions from the fund can only be made with the approval and authorization of the Board of Directors of the Foundation with the Foundation having ultimate authority and control over the funds. The principal of the fund shall not be invaded. Available distributions of earnings from the fund are to be made as requested on an annual basis. During the year ended September 30, 2007, \$900.00 of additional donor contributions were added to the fund. At September 30, 2007, the balance in this fund was \$20,514.06, and the fund was not expendable.

NOTE 7 INVENTORIES

Inventories consist of the following at September 30, 2007:

| | |
|---------------------------|----------------------|
| Museum gift shop items | \$ 166,335.32 |
| Pavers and unit memorials | <u>11,096.00</u> |
| Total | <u>\$ 177,431.32</u> |

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2007:

| | |
|--------------------------------|----------------------|
| Theater and simulator | \$ 1,716,514.20 |
| Equipment | 75,092.44 |
| WIP – database system | <u>67,500.00</u> |
| | 1,859,106.64 |
| Less: Accumulated depreciation | <u>(975,214.54)</u> |
| Total | <u>\$ 883,892.10</u> |

Depreciation expense was \$187,228.76 for the year ended September 30, 2007.

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 9 LINE OF CREDIT

The Foundation has a line of credit established at First Citizens Bank. The operating line of credit has a \$500,000.00 limit and is available until August 9, 2008. The line of credit has an interest rate of 7.75%. At September 30, 2007, \$50,000.00 of the credit line had been drawn.

NOTE 10 CAPITAL LEASE OBLIGATION

The Foundation is obligated under a capital lease for theater and simulator projectors leased from First Citizens Bank. The lease is payable in monthly installments of \$6,803.90 through February 23, 2012.

The leased property under the capital lease as of September 30, 2007 has a cost of \$345,000.00, accumulated amortization of \$24,642.86 and a net book value of \$320,357.14. Amortization of the leased property is included in depreciation expense.

The future minimum lease payments under the capital lease are computed as follows:

| <u>Years ending September 30,</u> | |
|-----------------------------------|----------------------|
| 2008 | \$ 81,646.80 |
| 2009 | 81,646.80 |
| 2010 | 81,646.80 |
| 2011 | 81,646.80 |
| 2012 | <u>27,215.60</u> |
| Total minimum lease payments | 353,802.80 |
| Amounts representing interest | <u>(49,317.91)</u> |
| | <u>\$ 304,484.89</u> |

NOTE 11 GROUND LEASE

On February 23, 2004, the Foundation renegotiated its lease with the City of Fayetteville. The original lease contained two parts, debt to the City of \$4,500,000.00 which was used for the construction of the museum building and a ground lease for the land surrounding the museum building. The City forgave the debt of \$4,500,000.00 plus interest for a total of \$5,283,579.72. The City transferred the deed for the museum building to the Foundation in order to allow the building to be turned over to the Army. The land surrounding the museum will continue to belong to the City. The new lease terms call for the Foundation to pay the City 2% of gross sales from the gift shop, theater, and simulator. The 2% of gross sale lease payments will continue in perpetuity. The ground lease expense was \$12,961.81 for the year ended September 30, 2007.

NOTE 12 CONCENTRATION OF CREDIT RISK

Cash accounts at commercial banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.00. The Foundation had deposits at commercial banks which exceeded the guaranteed amount by \$156,790.69 at September 30, 2007.

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 13 CORRECTION OF AN ERROR

During the year ended September 30, 2007, the Foundation realized that the endowment fund was incorrectly classified as unrestricted in the prior year. As a result, the September 30, 2006 permanently restricted net assets were increased by \$12,900.00 and the unrestricted net assets were reduced by \$12,900.00. This change had a \$0 net affect on total assets.

NOTE 14 ACCRUED COMPENSATED ABSENCES

Foundation employees are entitled to paid vacation and sick days, which accumulate at rates based upon years of service. Employees may carry forward unused vacation days, up to 30 days, into the following calendar year and will be compensated for unused vacation days upon termination at the employee's request. Unused sick days are not compensated upon termination.

As of September 30, 2007, the Foundation was obligated for vacation pay in the amount of \$7,779.26.

NOTE 15 RETIREMENT PLAN

The Foundation maintains a 403(b) tax-deferred annuity plan for all employees, full-time and part-time. Employees have the option of directing part of their pay into the plan to purchase annuities. There is presently no matching deferral made by the Foundation.