

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION

Fayetteville, North Carolina

FINANCIAL STATEMENTS

For the year ended September 30, 2009

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION

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September 30, 2009

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HAIGH, BYRD & LAMBERT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

January 15, 2009

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, 2009, 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, 2009, 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.

Haigh, Byrd & Lambert, LLP

Certified Public Accountants

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF FINANCIAL POSITION
September 30, 2009

EXHIBIT A

ASSETS

Cash and cash equivalents	\$ 474,103.22
Prepaid expenses	7,727.50
Deferred income	335.00
Contributions receivable	63,353.13
Grants receivable	39,425.22
Inventories	227,495.54
Endowment funds held by others	20,826.18
Property and equipment, net	<u>436,202.88</u>
Total assets	<u>\$ 1,269,468.67</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 31,101.33
Accrued expenses	26,568.20
Notes payable	10,000.00
Capital lease obligation	<u>175,314.85</u>
Total liabilities	<u>242,984.38</u>
Net assets:	
Unrestricted	
Undesignated	609,307.79
Designated for museum support	<u>197,707.99</u>
Total unrestricted	<u>807,015.78</u>
Temporarily restricted	201,777.34
Permanently restricted	<u>17,691.17</u>
Total net assets	<u>1,026,484.29</u>
Total liabilities and net assets	<u>\$ 1,269,468.67</u>

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF ACTIVITIES
For the year ended September 30, 2009

EXHIBIT B

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, gains and reclassifications:				
Pledges and contributions	\$ 145,551.28	\$ 76,500.00	\$ 1,491.17	\$ 223,542.45
Paver and memorial sales	81,609.45	-	-	81,609.45
Memberships	12,660.00	-	-	12,660.00
Governmental contracts and grants:				
Funding - Cumberland County	-	200,000.00	-	200,000.00
Funding - Tourism & Development	-	25,000.00	-	25,000.00
Funding - City of Fayetteville	-	75,000.00	-	75,000.00
Use of museum facilities	34,197.00	-	-	34,197.00
Museum gift shop sales	416,242.37	-	-	416,242.37
Simulator / theatre ticket sales	130,419.56	-	-	130,419.56
Interest income	463.59	-	-	463.59
Special event income	9,955.00	-	-	9,955.00
Other income	640.00	-	-	640.00
In-kind support	146,670.00	-	-	146,670.00
Net assets released from restrictions:				
Satisfaction of program restrictions	305,464.79	(305,464.79)	-	-
Expiration of time restrictions	33,744.56	(33,744.56)	-	-
Total support, revenues and gains	1,317,617.60	37,290.65	1,491.17	1,356,399.42
 Operating expenses:				
Program services	890,904.94	-	-	890,904.94
Administrative and general	141,128.17	-	-	141,128.17
Fundraising	42,924.60	-	-	42,924.60
Museum gift shop cost of sales	228,325.28	-	-	228,325.28
Total operating expenses	1,303,282.99	-	-	1,303,282.99
 Other gains/losses:				
Loss on abandonment of assets	(67,500.00)	-	-	(67,500.00)
Increase in fair value of funds held by others	571.21	-	-	571.21
	(66,928.79)	-	-	(66,928.79)
 Change in net assets	(52,594.18)	37,290.65	1,491.17	(13,812.36)
 Net assets - beginning of year	859,609.96	164,486.69	16,200.00	1,040,296.65
 Net assets - end of year	\$ 807,015.78	\$ 201,777.34	\$ 17,691.17	\$ 1,026,484.29

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF CASH FLOWS
For the year ended September 30, 2009

EXHIBIT C

Cash flows from operating activities:	
Change in net assets	\$ (13,812.36)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	191,206.55
Loss on disposal of assets	68,569.60
Unrealized gain on funds held by others	(571.21)
Changes in:	
Prepaid expenses	9,027.70
Deferred income	(335.00)
Contributions receivable	32,744.56
Grants receivable	(20,675.22)
Inventories	(38,697.97)
Accounts payable	12,916.50
Accrued expenses	15,206.12
Net cash provided by operating activities	<u>255,579.27</u>
Cash flows from investing activities:	
Contributions to funds held by others	<u>(1,491.17)</u>
Net cash used by investing activities	<u>(1,491.17)</u>
Cash flows from financing activities:	
Capital lease payments	(66,834.80)
Payments on line of credit	(50,000.00)
Proceeds from long term debt	10,000.00
Net cash used by financing activities	<u>(106,834.80)</u>
Net increase in cash	147,253.30
Cash and cash equivalents - beginning of year	<u>326,849.92</u>
Cash and cash equivalents - end of year	<u>\$ 474,103.22</u>

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended September 30, 2009

EXHIBIT D

	Program Services	Administrative and General	Fundraising	Total
Marketing and advertising	\$ 133,660.02	\$ -	\$ -	\$ 133,660.02
Bad debt expense	2,254.50	-	-	2,254.50
Bank charges	12,224.20	919.29	-	13,143.49
Depreciation	189,709.74	1,309.79	187.02	191,206.55
Dues and subscriptions	2,566.00	600.00	-	3,166.00
Employee benefits	13,362.47	5,348.06	763.62	19,474.15
Education	1,458.43	-	-	1,458.43
Exhibit expense	4,014.90	-	-	4,014.90
Fundraising expenses	-	-	1,017.47	1,017.47
Event/rental expense	8,846.22	250.00	-	9,096.22
Special event expenses	-	-	2,557.22	2,557.22
Grounds maintenance	35,128.52	-	-	35,128.52
Insurance	44,483.53	-	-	44,483.53
Interest expense	14,812.00	5.43	1,363.59	16,181.02
Office expenses and equipment rental	-	3,184.68	-	3,184.68
Paver and memorial costs	27,479.80	-	8,500.00	35,979.80
Postage and shipping	1,884.89	2,505.27	4,000.00	8,390.16
Printing and supplies	964.57	2,687.10	689.11	4,340.78
Professional fees	1,029.83	11,154.02	6,232.01	18,415.86
Repairs and maintenance	21,965.59	1,069.60	-	23,035.19
Salaries and wages	212,848.35	85,188.27	12,163.48	310,200.10
Taxes	17,277.70	6,915.05	987.36	25,180.11
Telephone and utilities	1,074.16	6,085.09	-	7,159.25
Volunteer expenses	2,252.49	901.52	128.72	3,282.73
Web expenses - Roll Call	1,356.04	-	-	1,356.04
Ground lease	10,920.99	-	-	10,920.99
In-kind advertising	59,970.00	-	-	59,970.00
In-kind rent	69,360.00	13,005.00	4,335.00	86,700.00
Subtotal	<u>890,904.94</u>	<u>141,128.17</u>	<u>42,924.60</u>	<u>1,074,957.71</u>
Museum gift shop cost of sales	-	-	-	228,325.28
Total expenses	<u>\$ 890,904.94</u>	<u>\$ 141,128.17</u>	<u>\$ 42,924.60</u>	<u>\$ 1,303,282.99</u>

AIRBORNE AND SPECIAL OPERATIONS MUSEUM FOUNDATION
Fayetteville, North Carolina

NOTES TO FINANCIAL STATEMENTS
For the year ended September 30, 2009

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 \$500, 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 \$133,660.02 during the year ended September 30, 2009.

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2009 are available for the following purposes:

Available for future periods	\$ 82,103.13
Available for marketing expenses	117,572.96
Available for volunteer expenses	<u>2,101.25</u>
	<u>\$ 201,777.34</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	\$ 67,150.00
Less:	
Allowance for uncollectible pledges	(364.00)
Unamortized discount	<u>(3,432.87)</u>
Net unconditional promises to give	<u>\$ 63,353.13</u>
Amounts due in:	
Less than one year	\$ 41,350.00
One to five years	<u>25,800.00</u>
Total	<u>\$ 67,150.00</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. The Foundation received free advertising with an estimated fair value of \$59,970.00 which is included in contributions and expenses in the statement of activities. 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 \$86,700.00 is included in contributions and expenses in the statement of activities.

NOTE 5 GOVERNMENTAL AWARDS

The County of Cumberland, North Carolina, paid \$200,000.00 to the Foundation under contracts dated July 1, 2008 and 2009. These funds are to be used for marketing expenses of the foundation, and are recognized as temporarily restricted support in the accompanying Statement of Activities. \$79,832.98 remains as temporarily restricted as of September 30, 2009.

The City of Fayetteville, North Carolina, paid \$75,000.00 to the Foundation under contracts dated July 1, 2008 and 2009. These funds are to be used for operating expenses of the foundation and are recognized as temporarily restricted in the accompanying Statement of Activities. \$18,750.00 remains as temporarily restricted as of September 20, 1009.

The Cumberland County Tourism Development Authority, North Carolina, paid \$25,000.00 to the Foundation under contract dated August 1, 2009. These funds are to be used for marketing expenses of the foundation, and are recognized as temporarily restricted support in the accompanying Statement of Activities. All of the County Tourism Development funding was expended during the year ended September 30, 2009 for marketing expenses.

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, 2009, \$1,491.17 of additional donor contributions were added to the fund. At September 30, 2009, the balance in this fund was \$20,826.18.

NOTE 7 INVENTORIES

Inventories consist of the following at September 30, 2009:

Museum gift shop items	\$ 219,400.74
Pavers and unit memorials	<u>8,094.80</u>
Total	<u>\$ 227,495.54</u>

NOTES TO FINANCIAL STATEMENTS - continued

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2009:

Theater and simulator	1,716,514.20
Equipment	<u>77,195.69</u>
	1,793,709.89
Less: Accumulated depreciation	<u>(1,357,507.01)</u>
Total	<u>\$ 436,202.88</u>

Depreciation expense was \$191,206.55 for the year ended September 30, 2009.

NOTE 9 NOTES PAYABLE

The Foundation's notes payable consists of a loan with First Citizens Bank. The note bears an interest rate of 6.25% and will be payable in 35 monthly installments of \$305.36 including interest and one final payment due on September 28, 2012. The note was scheduled to mature as follows:

September 30, 2010	\$ 3,127.91
September 30, 2011	3,329.10
September 30, 2012	<u>3,542.99</u>
	<u>\$ 10,000.00</u>

The foundation subsequently paid off this loan as of November 25, 2009.

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, 2009 has a cost of \$345,000.00, accumulated amortization of \$123,214.30 and a net book value of \$221,785.70. Amortization of the leased property is included in depreciation expenses.

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

September 30, 2010	\$ 81,646.80
September 30, 2011	81,646.80
September 30, 2012	<u>27,215.60</u>
Total minimum lease payments	190,509.20
Amounts representing interest	<u>(15,194.35)</u>
	<u>\$175,314.85</u>

NOTE 10 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 to 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 \$10,920.99 for the year ended September 30, 2009.

NOTE 11 CONCENTRATION OF CREDIT RISK

Cash accounts at commercial banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.00. The Foundation had deposits at commercial banks which exceeded the guaranteed amount by \$77,087.66 at September 30, 2009.

NOTE 12 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 80 hours, 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, 2009, the Foundation was obligated for vacation pay in the amount of \$5,878.20.