

THE RONALD REAGAN PRESIDENTIAL
FOUNDATION AND INSTITUTE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 and 2014

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Ronald Reagan Presidential
Foundation and Institute

We have audited the accompanying financial statements of The Ronald Reagan Presidential Foundation and Institute (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ronald Reagan Presidential Foundation and Institute as of September 30, 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.

Rose, Snyder & Jacobs LLP

Encino, California
April 14, 2016

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

ASSETS

| | 2015 | 2014 |
|---|----------------|----------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 9,787,743 | \$ 7,860,884 |
| Pledges receivable - net (notes 2 and 13) | 2,135,259 | 2,089,131 |
| Museum store inventory | 1,014,487 | 954,095 |
| Prepaid expenses, accounts receivable and other assets (notes 3 and 10) | 2,226,205 | 1,149,709 |
| TOTAL CURRENT ASSETS | 15,163,694 | 12,053,819 |
| COLLECTIONS (note 1) | - | - |
| INVESTMENTS (note 6) | 142,085,628 | 152,811,282 |
| PLEDGES RECEIVABLE - NET (notes 2 and 13) | 46,361,503 | 43,053,872 |
| LAND, BUILDING AND EQUIPMENT - NET (note 4) | 83,188,371 | 84,514,753 |
| TOTAL ASSETS | \$ 286,799,196 | \$ 292,433,726 |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------|----------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 2,191,239 | \$ 1,462,658 |
| TOTAL CURRENT LIABILITIES | 2,191,239 | 1,462,658 |
| LONG-TERM LIABILITIES | | |
| Note payable (note 8) | 6,000,000 | 6,000,000 |
| Charitable remainder annuity trusts (note 9) | 291,280 | 373,250 |
| TOTAL LIABILITIES | 8,482,519 | 7,835,908 |
| COMMITMENTS AND CONTINGENCIES (note 7) | | |
| NET ASSETS | | |
| Unrestricted: | | |
| General | 91,072,928 | 90,367,957 |
| Museum store | 4,379,780 | 4,286,967 |
| Board-designated: | | |
| For endowment purposes (note 14) | 53,669,422 | 58,297,899 |
| Temporarily restricted (note 5) | 32,753,556 | 29,634,496 |
| Temporarily restricted endowment (note 5 and 14) | 29,814,069 | 35,393,577 |
| Permanently restricted: | | |
| Endowment campaigns (note 14) | 66,626,922 | 66,616,922 |
| TOTAL NET ASSETS | 278,316,677 | 284,597,818 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 286,799,196 | \$ 292,433,726 |

See independent auditors' report and notes to financial statements.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Unrestricted | | Board Designated - For Endowment Purposes | Temporarily Restricted | Temporarily Restricted For Endowment Purposes | Permanently Restricted Endowment Campaigns | Total |
|---|-------------------|------------------|--|---------------------------|--|---|-------------------|
| | General | Museum Stores | | | | | |
| REVENUE AND OTHER SUPPORT: | | | | | | | |
| Contributions | \$ 5,274,269 | \$ - | \$ - | \$ 1,820,956 | \$ - | \$ 10,000 | \$ 7,105,225 |
| Direct mail | 1,809,864 | - | - | - | - | - | 1,809,864 |
| Pledge support | - | - | - | 5,223,920 | - | - | 5,223,920 |
| Rental, admission and royalty income | 4,284,206 | - | - | - | - | - | 4,284,206 |
| Museum store sales (note 11) | - | 2,710,905 | - | - | - | - | 2,710,905 |
| TOTAL REVENUE AND OTHER SUPPORT BEFORE NET ASSETS RELEASED FROM RESTRICTIONS | 11,368,339 | 2,710,905 | - | 7,044,876 | - | 10,000 | 21,134,120 |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | | | | | | |
| Expiration of time restrictions | 766,642 | - | - | (766,642) | - | - | - |
| Satisfaction of program restrictions | 2,677,878 | - | - | (2,677,878) | - | - | - |
| TOTAL REVENUE AND OTHER SUPPORT | 14,812,859 | 2,710,905 | - | 3,600,356 | - | 10,000 | 21,134,120 |
| EXPENSES AND LOSSES: | | | | | | | |
| Loss on investments (note 6) | 4,352,615 | - | - | 66,596 | - | - | 4,419,211 |
| Program expenses: | | | | | | | |
| Center for Public Affairs | 1,692,961 | - | - | - | - | - | 1,692,961 |
| Presidential Learning Center | 2,695,782 | - | - | - | - | - | 2,695,782 |
| Library events and exhibits | 7,889,883 | - | - | - | - | - | 7,889,883 |
| Ronald Reagan Institute | 157,614 | - | - | - | - | - | 157,614 |
| Library and museum support and promotion | 1,924,206 | - | - | - | - | - | 1,924,206 |
| Cost of museum store sales (note 11) | - | 1,117,592 | - | - | - | - | 1,117,592 |
| Museum store operating costs (note 11) | - | 1,500,500 | - | - | - | - | 1,500,500 |
| Fund-raising | 2,480,658 | - | - | - | - | - | 2,480,658 |
| Direct mail | 1,395,096 | - | - | - | - | - | 1,395,096 |
| Management and general | 1,727,058 | - | - | - | - | - | 1,727,058 |
| Provision for estimated uncollectible pledges receivable | - | - | - | 414,700 | - | - | 414,700 |
| TOTAL EXPENSES AND LOSSES | 24,315,873 | 2,618,092 | - | 481,296 | - | - | 27,415,261 |
| CHANGES IN NET ASSETS | (9,503,014) | 92,813 | - | 3,119,060 | - | 10,000 | (6,281,141) |
| Transfers for endowment purposes (note 14) | 10,207,985 | - | (4,628,477) | - | (5,579,508) | - | - |
| NET ASSETS - Beginning of year | 90,367,957 | 4,286,967 | 58,297,899 | 29,634,496 | 35,393,577 | 66,616,922 | 284,597,818 |
| NET ASSETS - End of year | \$ 91,072,928 | \$ 4,379,780 | \$ 53,669,422 | \$ 32,753,556 | \$ 29,814,069 | \$ 66,626,922 | \$ 278,316,677 |

See independent auditors' report and
notes to financial statements.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | Unrestricted | | | Temporarily Restricted | Temporarily Restricted For Endowment Purposes | Permanently Restricted Endowment Campaigns | Total |
|---|----------------------|---------------------|--|---------------------------|--|---|-----------------------|
| | General | Museum Stores | Board Designated - For Endowment Purposes | | | | |
| REVENUE AND OTHER SUPPORT: | | | | | | | |
| Contributions | \$ 5,002,904 | \$ - | \$ - | \$ 215,250 | \$ - | \$ - | \$ 5,218,154 |
| Direct mail | 1,881,410 | - | - | - | - | - | 1,881,410 |
| Pledge support | - | - | - | 10,919,113 | - | 771,616 | 11,690,729 |
| Gain on investments (note 6) | 11,606,080 | - | - | 1,382,680 | - | - | 12,988,760 |
| Rental, admission and royalty income | 5,239,244 | - | - | - | - | - | 5,239,244 |
| Museum store sales (note 11) | - | 2,899,683 | - | - | - | - | 2,899,683 |
| TOTAL REVENUE AND OTHER SUPPORT BEFORE NET ASSETS RELEASED FROM RESTRICTIONS | 23,729,638 | 2,899,683 | - | 12,517,043 | - | 771,616 | 39,917,980 |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | | | | | | |
| Expiration of time restrictions | 998,989 | - | - | (998,989) | - | - | - |
| Satisfaction of program restrictions | 1,108,360 | - | - | (1,108,360) | - | - | - |
| TOTAL REVENUE AND OTHER SUPPORT | 25,836,987 | 2,899,683 | - | 10,409,694 | - | 771,616 | 39,917,980 |
| EXPENSES AND LOSSES: | | | | | | | |
| Program expenses: | | | | | | | |
| Center for Public Affairs | 1,118,125 | - | - | - | - | - | 1,118,125 |
| Presidential Learning Center | 2,386,481 | - | - | - | - | - | 2,386,481 |
| Library events and exhibits | 8,662,718 | - | - | - | - | - | 8,662,718 |
| Ronald Reagan Institute | 130,579 | - | - | - | - | - | 130,579 |
| Library and museum support and promotion | 1,329,562 | - | - | - | - | - | 1,329,562 |
| Cost of museum store sales (note 11) | - | 1,151,679 | - | - | - | - | 1,151,679 |
| Museum store operating costs (note 11) | - | 1,558,835 | - | - | - | - | 1,558,835 |
| Fund-raising | 2,698,701 | - | - | - | - | - | 2,698,701 |
| Direct mail | 1,318,335 | - | - | - | - | - | 1,318,335 |
| Management and general | 1,440,466 | - | - | - | - | - | 1,440,466 |
| Provision for estimated uncollectible pledges receivable | - | - | - | 187,300 | - | - | 187,300 |
| TOTAL EXPENSES AND LOSSES | 19,084,967 | 2,710,514 | - | 187,300 | - | - | 21,982,781 |
| CHANGES IN NET ASSETS | 6,752,020 | 189,169 | - | 10,222,394 | - | 771,616 | 17,935,199 |
| Transfers for endowment purposes (note 14) | (11,365,453) | - | 4,989,567 | - | 6,375,886 | - | - |
| NET ASSETS - Beginning of year | 94,981,390 | 4,097,798 | 53,308,332 | 19,412,102 | 29,017,691 | 65,845,306 | 266,662,619 |
| NET ASSETS - End of year | <u>\$ 90,367,957</u> | <u>\$ 4,286,967</u> | <u>\$ 58,297,899</u> | <u>\$ 29,634,496</u> | <u>\$ 35,393,577</u> | <u>\$ 66,616,922</u> | <u>\$ 284,597,818</u> |

See independent auditors' report and
notes to financial statements.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ (6,281,141) | \$ 17,935,199 |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 3,966,061 | 4,110,645 |
| Loss on asset disposal | 205,733 | - |
| Non-cash contribution revenue | (116,871) | (11,578) |
| Pledge support restricted to endowments - net | - | (771,616) |
| Cash contributions restricted to endowments | 10,000 | - |
| (Gain) loss on investments | 4,419,211 | (12,988,760) |
| Provision for doubtful pledges | 414,700 | 187,300 |
| Changes in operating assets and liabilities: | | |
| Unrestricted and temporarily restricted pledges receivable - net | (4,208,169) | (9,115,070) |
| Museum store inventory | (60,393) | 19,636 |
| Prepaid expenses, accounts receivable and other assets | (1,076,496) | 192,934 |
| Accounts payable and accrued expenses | <u>728,583</u> | <u>(171,103)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(1,998,782)</u> | <u>(612,413)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (58,788) | (537,710) |
| Proceeds from sale of investments | 6,563,480 | 1,660,000 |
| Purchase of land, building and equipment | <u>(2,845,413)</u> | <u>(473,135)</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>3,659,279</u> | <u>649,155</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Collection of pledges restricted to endowments | 348,333 | 333,334 |
| Charitable remainder annuity trusts | <u>(81,971)</u> | <u>45,534</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>266,362</u> | <u>378,868</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,926,859 | 415,610 |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>7,860,884</u> | <u>7,445,274</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u>\$ 9,787,743</u> | <u>\$ 7,860,884</u> |
| SUPPLEMENTARY DISCLOSURE: | | |
| Interest paid in cash | <u>\$ 56,280</u> | <u>\$ 55,335</u> |
| NON-CASH DISCLOSURES | | |
| Donated goods and services | <u>\$ 99,906</u> | <u>\$ 73,393</u> |

See independent auditors' report and notes to financial statements.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Ronald Reagan Presidential Foundation (the “Foundation”) was incorporated on February 27, 1985 in the state of California to obtain funding from private sources necessary to construct the Ronald Reagan Presidential Library and museum in Simi Valley, California. Today, the Foundation’s mission is to promote the timeless principles Ronald Reagan championed: Individual Liberty, Economic Opportunity, Global Democracy and National Pride. These principles guided the President throughout his years of public service. Through its nonprofit status, the Foundation conducts fund-raising and programming activities that sustain: The Ronald Reagan Presidential Library, including the Museum (the “Library”), The Center for Public Affairs, The Walter and Leonore Annenberg Presidential Learning Center, established to be a place where school children are inspired to learn about civics, the presidency, history and leadership and the Air Force One Pavilion (the “Pavilion”). The Pavilion tells the story of President Reagan’s role in ending the Cold War and showcases Air Force One, the Boeing 707 aircraft used by seven United States presidents, including President Reagan. The aircraft is on permanent loan from the United States Air Force. The Pavilion houses the Discovery Center, made possible by the Donald W. Reynolds Foundation, where students participate in presidential decision making and role play real historical scenarios from the Reagan Administration designed to represent the executive branch experience. The Library houses more than 63 million pages of Presidential, Gubernatorial and personal papers, 1.5 million photographs, and over 60,000 gifts and artifacts chronicling the lives of Ronald and Nancy Reagan. It now also serves as the final resting place of America’s 40th President.

During the year ended September 30, 2014, the Foundation committed itself to developing a new Reagan Institute (the “Institute”) in Washington, D.C. which will be focused on education initiatives, research and publishing, as well as convening thoughtful leaders, primarily within our nation’s capital, all to further promote Ronald Reagan’s timeless principles. In conjunction with this commitment, the Foundation changed its name to the Ronald Reagan Presidential Foundation and Institute and began initial planning efforts to bring this new effort to fruition.

The Foundation relies on contributions, museum admission fees, return on investments, museum store sales, facility rentals, and royalty and licensing agreements to support its operations and programs. On March 18, 1991, the Foundation granted to the National Archives and Records Administration (“NARA”) the exclusive right to use and operate the Library for as long as the Library is operated as a presidential archive (see note 10).

Basis of Presentation

The Foundation’s financial statements include a statement of financial position that presents the amounts for each of three classes of net assets—unrestricted net assets, temporarily restricted net assets and permanently restricted net assets—based on the existence or absence of donor imposed restrictions, a statement of activities and statement of cash flows that reflect the changes in those classes of net assets.

See independent auditors’ report.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Foundation classifies balances within each of the three net asset classes by their nature and purpose. The Foundation's unrestricted net assets are classified as general, museum store or board-designated amounts. General net assets represent unrestricted net assets related to the Foundation's principal operations. Museum store net assets represent unrestricted net assets associated with the Foundation's museum store operations (see note 11). Board-designated for endowment purposes represents unrestricted net assets that function as endowment until otherwise specified by the Board of Trustees. Temporarily restricted net assets comprise pledges due to, and contributions received by, the Foundation for which donors have restricted the use of such funds to a specified purpose or for a period of time. Temporarily restricted endowment funds represent donor designated endowment fund earnings and un-appropriated earnings from other permanently restricted endowment funds. Permanently restricted net assets represent the results of endowment fund-raising efforts. Endowment amounts are maintained in perpetuity. Investment income from endowments is generally available to support operations unless specifically restricted by the donor and is classified as temporarily restricted endowment until appropriated by the Board of Trustees.

The Board of Trustees has adopted a draw policy of five percent per year of a calculated value of the endowment funds to fund the operations of the Foundation. Unused draw amounts are reclassified as temporarily restricted endowment. The balance of the endowment cannot be less than the amount of required endowment fund balance at the end of each period. If the endowment falls below that amount, the difference is classified as unrestricted until it is restored to its original value.

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period pledged. 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 their estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met. An allowance for doubtful amounts is determined using the age of the pledge, creditworthiness of the donor and historical collection experience.

Revenue from museum admission fees, facility rentals and museum store operations is recognized at the time of sale or at the time the event is held.

The Foundation reports contributions and pledge support as either temporarily or permanently restricted if such items are received with donor stipulations that limit the use of the donated assets. 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. Contributions whose restrictions are met in the same year as the contributions are made are initially classified as temporarily restricted net assets. If a donor changes the restrictions on a contribution, the re-designation is reflected in the statements in the year the designation is changed.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on hand and on deposit at financial institutions which are intended for operations and exclude money market funds held for investment.

Museum Store Inventory

Inventory consists of goods held for sale in the Foundation's museum store and is stated at the lower of cost (first-in, first-out method) or market.

See independent auditors' report.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are classified as long term and stated at fair value based on current market price, if available.

Land, Building and Equipment

Building, exhibits, furniture, fixtures and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which range from 5 to 40 years.

Endowment Funds

See note 14 for Endowment Funds.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management uses its historical records and knowledge of its activities in making these estimates. Accordingly, actual results could differ from those estimates.

Collections

The Library stores and displays significant collections of both Presidential and personal artifacts, documents, and photographic information, which are owned and controlled by NARA and therefore are not reflected in these financial statements. The Foundation owns a much smaller collection of personal (non-presidential) items, gifted by President and Mrs. Reagan and others. While some of these items are displayed in the Museum and other non-public areas of the library, the bulk of these items are kept in permanent storage. The Foundation has, for many years, transferred these stored items to NARA for safekeeping. The Foundation works with NARA to ensure that these items are properly housed and catalogued. None of these Foundation-owned items are recognized as assets on the Foundation's statement of financial position and to date the Foundation has not disposed of any of its collections.

Income Taxes

The Foundation is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code ("IRC") and is also exempt from state franchise taxes.

The Foundation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification 740-10-25, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax positions, if any. The Foundation has identified and evaluated their significant tax positions for which the statute of limitations remains open and determined there are no material unrecognized tax benefits or liabilities to be recorded. The Foundation's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties totaled \$0 for the years ended September 30, 2015 and 2014.

See independent auditors' report.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Foundation has adopted guidance issued by the FASB that defines fair value, establishes a framework for measuring fair value in accordance with existing Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

| <u>Level Input:</u> | <u>Input Definition:</u> |
|---------------------|--|
| Level I | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. |
| Level II | Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level III | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. |

The Foundation's policy is to recognize transfers between Level I, II, and III as of the end of the fiscal year during which the event or circumstances that caused the transfer occurred.

Carrying amounts reported in the statement of financial position for cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities approximate fair value because of their immediate or short-term nature. The fair value of borrowings is not considered to be significantly different than its carrying amount because the stated rates for such debt reflect current market rates and conditions.

2. PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows at September 30:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|----------------------|----------------------|
| Within one year | \$ 2,718,817 | \$ 2,418,595 |
| From one to five years | 26,237,335 | 3,082,995 |
| Over five years | <u>30,751,077</u> | <u>50,925,494</u> |
| | 59,707,229 | 56,427,084 |
| Present value discount * | (10,048,792) | (10,502,817) |
| Allowance for doubtful pledges | <u>(1,161,675)</u> | <u>(781,264)</u> |
| | 48,496,762 | 45,143,003 |
| Less current portion, net | <u>2,135,259</u> | <u>2,089,131</u> |
| | <u>\$ 46,361,503</u> | <u>\$ 43,053,872</u> |

* Anticipated pledge payments are discounted at the U.S. Treasury Bill rate for the pledge period at the time the pledge is received.

Total bequests and conditional pledges, which are not included in the financial statements, were \$54,716,685 and \$49,310,128 as of September 30, 2015 and 2014, respectively. During the year ended September 30, 2014, the Foundation received a conditional pledge for \$15,000,000 relating to the development of the Institute.

See independent auditors' report.

THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015 AND 2014

3. PREPAID EXPENSES AND ACCOUNTS RECEIVABLE

Accounts receivable include funds recognized as satisfying the pledge conditions met during the year. During fiscal years 2015 and 2014, statue and exhibit costs were incurred in advance of the unveiling or the exhibition. Costs are expensed when the unveiling occurs or during the exhibition period.

4. LAND, BUILDING AND EQUIPMENT

Land, building and equipment consisted of the following at September 30:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|----------------------|----------------------|
| Land | \$ 24,159,956 | \$ 22,656,143 |
| Building and land improvements | 86,253,400 | 85,780,240 |
| Furniture, fixtures and equipment | 8,822,291 | 8,429,724 |
| Exhibits | 17,771,947 | 17,771,947 |
| Museum store furniture and fixtures | <u>764,068</u> | <u>764,068</u> |
| | 137,771,662 | 135,402,122 |
| Less accumulated depreciation | <u>(54,583,291)</u> | <u>(50,887,369)</u> |
| Land, building and equipment-net | <u>\$ 83,188,371</u> | <u>\$ 84,514,753</u> |

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at September 30:

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Pledges received with time restriction | \$ 25,664,892 | \$ 22,219,646 |
| GE Scholarships | 4,882,096 | 5,523,982 |
| Goldman Sachs - Reagan Freedom Medal | - | 1,000,000 |
| Center for Public Affairs and Museum | 1,436,388 | 271,349 |
| Walter and Leonore Annenberg Presidential Learning Center | 486,861 | 250,520 |
| Donald W. Reynolds Foundation | | |
| Air Force One Discovery Center | <u>283,319</u> | <u>368,999</u> |
| | <u>\$ 32,753,556</u> | <u>\$ 29,634,496</u> |

Temporarily restricted endowment net assets are available for the following purposes or periods at September 30:

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Pledges received with time restriction | \$ 27,278,194 | \$ 32,183,790 |
| Walter and Leonore Annenberg Presidential Learning Center | 1,554,892 | 1,912,735 |
| Donald W. Reynolds Foundation | | |
| Air Force One Discovery Center | 720,235 | 943,838 |
| Donald W. Reynolds Foundation | | |
| Museum Maintenance | <u>260,748</u> | <u>353,214</u> |
| | <u>\$ 29,814,069</u> | <u>\$ 35,393,577</u> |

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THE RONALD REAGAN PRESIDENTIAL FOUNDATION AND INSTITUTE
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6. INVESTMENTS

Investments are carried at fair value with realized and unrealized gains and losses, interest and dividends reflected in the statements of activities. Investments are money market funds, equity mutual funds, commodities mutual funds, marketable equity securities and private securities. These funds were measured at fair value using quoted market prices and were classified as Level I. If the fund is not trading on regular basis, it's classified as Level II. Private securities are valued at the best estimates available and are classified as Level III.

During the years ended September 30, 2015 and 2014, the Foundation had investments in a private company through the Endowment managed by State Street, which does not have a quoted market price and is therefore classified as Level III. Management obtains an updated valuation report annually to determine the fair value.

Following is a summary of the fair values of investments measured on a recurring basis at September 30:

| | September 30, 2015 | | | |
|--|----------------------|----------------------|---------------------|-----------------------|
| | Level I | Level II | Level III | Total |
| Money Market funds held for investment | \$ 2,151,073 | \$ - | \$ - | \$ 2,151,073 |
| Equity mutual funds | 16,485,699 | 48,149,181 | - | 64,634,880 |
| Fixed Income mutual funds | 48,047,131 | 16,842,176 | - | 64,889,307 |
| Commodities mutual funds | - | - | - | - |
| Trust funds held for others | 2,752,180 | 590,940 | 257,383 | 3,600,503 |
| Private equity securities | - | - | 6,809,865 | 6,809,865 |
| Total investments | <u>\$ 69,436,083</u> | <u>\$ 65,582,297</u> | <u>\$ 7,067,248</u> | <u>\$ 142,085,628</u> |

| | September 30, 2014 | | | |
|--|----------------------|----------------------|----------------------|-----------------------|
| | Level I | Level II | Level III | Total |
| Money Market funds held for investment | \$ 1,630,572 | \$ - | \$ - | \$ 1,630,572 |
| Equity mutual funds | 28,044,691 | 50,535,715 | - | 78,580,406 |
| Fixed Income mutual funds | 46,755,619 | 11,494,028 | 5,781,217 | 64,030,864 |
| Commodities mutual funds | 142,966 | - | - | 142,966 |
| Trust funds held for others | 3,038,667 | 723,146 | 257,383 | 4,019,196 |
| Private equity securities | - | - | 4,407,278 | 4,407,278 |
| Total investments | <u>\$ 79,612,515</u> | <u>\$ 62,752,889</u> | <u>\$ 10,445,878</u> | <u>\$ 152,811,282</u> |

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6. INVESTMENTS (Continued)

The following table summarizes our fair value measurements using significant Level II and III inputs, and changes therein, for the years ended September 30, 2015 and 2014:

| | <u>Level II</u> | <u>Level III</u> |
|----------------------------------|----------------------|---------------------|
| Balance as of September 30, 2013 | \$ 106,021,250 | \$ 11,007,628 |
| Transfers to State Street | (47,774,197) | (2,502,841) |
| Net purchases (sales) | (480,000) | 1,300,004 |
| Net unrealized gains (losses) | 4,854,423 | 628,388 |
| Net realized gains (losses) | <u>131,413</u> | <u>12,699</u> |
| Balance as of September 30, 2014 | 62,752,889 | 10,445,878 |
| Level reclassification | 5,545,616 | (5,545,616) |
| Net purchases (sales) | 926,247 | 1,551,127 |
| Net unrealized gains (losses) | (4,759,040) | 427,548 |
| Net realized gains (losses) | <u>1,116,585</u> | <u>188,311</u> |
| Balance as of September 30, 2015 | <u>\$ 65,582,297</u> | <u>\$ 7,067,248</u> |

Gain (loss) on investments is as follows for the years ended September 30:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|-----------------------|----------------------|
| Net gain (loss) on investments | | |
| carried at fair value | \$ (8,490,281) | \$ 10,612,760 |
| Interest and dividends | <u>4,071,070</u> | <u>2,376,000</u> |
| | <u>\$ (4,419,211)</u> | <u>\$ 12,988,760</u> |

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially impact the amounts reported in the financial statements.

7. COMMITMENTS AND CONTINGENCIES

Scholarship

In 2010, the Foundation received a \$5,000,000 contribution from GE Corporation to fund a ten-year national scholarship program. Terms of the contribution require the Foundation to fund \$300,000 per year for program costs and scholarships. Fund earnings are also restricted for scholarships.

Legal Matters

No legal proceedings have arisen that, in the opinion of management, would have a material adverse impact on the financial position or results of operations of the Foundation.

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8. NOTE PAYABLE

During the year ended September 30, 2013, the Foundation purchased 140 acres of adjacent land for \$6,000,000. The land is financed with an interest-only loan from a bank with the principal and unpaid interest due at maturity on June 29, 2017. Interest is calculated and paid monthly at a variable rate based on a specified index and the average annual rate paid during the years ended September 30, 2015 and 2014 was 1%. During the years ended September 30, 2015 and 2014, interest expense totaled \$56,280 and \$55,335, respectively. The loan covenants require unrestricted cash and investments remain above \$25 million. At September 30, 2015 and 2014, the Foundation was in compliance with its loan covenants.

9. CHARITABLE REMAINDER ANNUITY TRUSTS

The Foundation is Trustee under certain Irrevocable Annuity Trust Agreements which require future payments to the Grantors. The present value of the expected future payments is recorded as a liability and adjusted annually based on actuarial assumptions.

10. AGREEMENT WITH THE NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

Upon completion of the Library's construction in 1991, NARA assumed responsibility for the operation, security and maintenance of the Library as a presidential archival depository. However, the operation and maintenance of certain portions of the Library, including the areas designated for the museum store, the Air Force One Pavilion and the Foundation offices remain the responsibility of the Foundation. Accounts receivable from NARA are for reimbursements for utilities and other general costs that are paid by the Foundation and amounted to \$152,782 and \$156,353 at September 30, 2015 and 2014, respectively. Accounts receivable from NARA accounted for approximately 39% and 23% of total accounts receivable at September 30, 2015 and 2014, respectively.

11. MUSEUM STORE

The museum store, located within the Library, was opened in 1991. Museum store revenue is offset by direct costs, such as costs of merchandise sold and payroll costs of museum store employees. In addition, indirect costs, such as depreciation, utilities and a portion of the Foundation's general and administrative expenses, are allocated to the museum store. This allocation is based primarily on the proportion of labor dollars attributable to the museum store relative to total Foundation labor dollars, with the exception of depreciation, which is based on square footage.

12. RETIREMENT PLAN

The Foundation has a defined contribution retirement plan for its employees under the provisions of IRC Section 403(b). Under the terms of this plan, employees who worked a minimum of 1,000 hours per year are eligible for participation after one year of service and the attainment of age 21. Vesting in Foundation contributions is 20% each year, with a participant 100% vested after five years of credited service. Plan contributions are made solely by the Foundation in the amount of 10% of the plan participants' compensation. Such contributions are made at the Board's discretion, not to exceed the statutory allowable amount. During the years ended September 30, 2015 and 2014, Foundation contributions were \$395,893 and \$330,652, respectively.

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13. CONCENTRATIONS

Major Donors

The pledges from three donors accounted for approximately 75% of total pledges receivable at September 30, 2015 and 2014.

Major Accounts Receivable

Accounts receivable from two entities accounted for 68% and 67% of total accounts receivable at September 30, 2015 and 2014, respectively.

Concentration of Credit Risk

The Foundation maintains its cash at financial institutions which may, at times, exceed federally insured limits. At September 30, 2015, the Foundation had cash and cash equivalents on deposit exceeding federally insured limits by \$11,143,608. Historically, the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

14. ENDOWMENT FUNDS

Net Asset Classifications

In August 2008, the Financial Accounting Standards Board ("FASB") issued guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The FASB guidance also improves disclosures about a foundation's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the Foundation is subject to UPMIFA. The Foundation classifies the donor-restricted endowment funds of perpetual duration as permanently restricted net assets. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the law requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2015.

Interpretation of Law

The Board of Trustees has interpreted the state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies the donor-restricted endowment funds of perpetual duration as permanently restricted net assets.

Endowment Investment and Spending Policies

The Board of Trustees has adopted an investment policy designed to seek an average total annual return that exceeds the spending or payout rate plus inflation measured over annualized, rolling five and ten year periods. To achieve its investment objectives, funds are allocated among a number of asset classes. The general policy is to diversify investments among both equity and fixed income strategies so as to provide a balance that will enhance total return while avoiding undue risk concentrations in any single asset class or investment category (see note 6 for the current asset allocation).

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14. ENDOWMENT FUNDS (Continued)

Endowment Investment and Spending Policies (Continued)

It is the Foundation's policy to distribute annually 5% of the average of the investment pool's market value as of the end of 20 quarters prior to the next fiscal year period. It is understood that the total return basis for calculating spending is sanctioned by the UPMIFA, under which guideline the Foundation is permitted to spend an amount in excess of the current yield (interest and dividends earned), including realized or unrealized appreciation. The Foundation distributed \$6,000,000 under this policy during the fiscal year ended 2015. The Foundation distributed \$960,000 with donor imposed restrictions under this policy during the fiscal year ended 2014.

The following are endowment fund activities for the year ended September 30, 2015:

| ENDOWMENT FUND BALANCES | | | | |
|--------------------------------------|----------------------|---------------------------|---------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| General Endowment | \$ (40,426) | \$ 27,278,194 | \$ 30,664,718 | \$ 57,902,486 |
| Education | | | | |
| Annenberg/Education Activities | - | 1,554,892 | 10,000,000 | 11,554,892 |
| Reynolds/Discovery Center | - | 720,235 | 6,500,000 | 7,220,235 |
| Reynolds/Museum Maintenance | - | 260,748 | 2,725,000 | 2,985,748 |
| Funds Functioning as Endowment | <u>53,709,848</u> | <u>-</u> | <u>-</u> | <u>53,709,848</u> |
| | 53,669,422 | 29,814,069 | 49,889,718 | 133,373,209 |
| Endowment Pledges at present value | <u>-</u> | <u>-</u> | <u>16,737,204</u> | <u>16,737,204</u> |
| Total Endowment Net Assets | <u>\$ 53,669,422</u> | <u>\$ 29,814,069</u> | <u>\$ 66,626,922</u> | <u>\$ 150,110,413</u> |
| ENDOWMENT FUND CHANGES IN NET ASSETS | | | | |
| INVESTED ENDOWMENT | | | | |
| Beginning balance | \$ 58,297,899 | \$ 35,393,577 | \$ 49,531,385 | \$ 143,222,861 |
| Investment Returns | | | | |
| Investment Income | 3,982,720 | - | - | 3,982,720 |
| Investment Appreciation | (8,190,705) | - | - | (8,190,705) |
| Investment Costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Investment Returns | <u>(4,207,985)</u> | <u>-</u> | <u>-</u> | <u>(4,207,985)</u> |
| Appropriated for Expenditure | <u>(6,000,000)</u> | <u>-</u> | <u>-</u> | <u>(6,000,000)</u> |
| Cash Additions to Endowment | | | | |
| Donor Directed | - | - | 358,333 | 358,333 |
| Board Directed | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total New Additions | <u>-</u> | <u>-</u> | <u>358,333</u> | <u>358,333</u> |
| Reclassifications | <u>5,579,508</u> | <u>(5,579,508)</u> | <u>-</u> | <u>-</u> |
| Ending balance | <u>\$ 53,669,422</u> | <u>\$ 29,814,069</u> | <u>\$ 49,889,718</u> | <u>\$ 133,373,209</u> |

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14. ENDOWMENT FUNDS (Continued)

The following are endowment fund activities for the year ended September 30, 2015:

ENDOWMENT FUND CHANGES IN NET ASSETS

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| ENDOWMENT PLEDGES | | | | |
| Beginning balance | \$ - | \$ - | \$ 17,085,537 | \$ 17,085,537 |
| New Pledges, net of discounts and payments | <u>-</u> | <u>-</u> | <u>(348,333)</u> | <u>(348,333)</u> |
| Ending balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,737,204</u> | <u>\$ 16,737,204</u> |

TOTAL ENDOWMENT NET ASSETS

| | | | | |
|---------------------------------|----------------------|----------------------|----------------------|-----------------------|
| Beginning balance | \$ 58,297,899 | \$ 35,393,577 | \$ 66,616,922 | \$ 160,308,398 |
| Changes in Endowment net assets | <u>(4,628,477)</u> | <u>(5,579,508)</u> | <u>10,000</u> | <u>(10,197,985)</u> |
| Ending balance | <u>\$ 53,669,422</u> | <u>\$ 29,814,069</u> | <u>\$ 66,626,922</u> | <u>\$ 150,110,413</u> |

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14. ENDOWMENT FUNDS (Continued)

The following are endowment fund activities for the year ended September 30, 2014:

| | ENDOWMENT FUND BALANCES | | | |
|------------------------------------|-------------------------|-----------------------------------|-----------------------------------|-----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| General Endowment | \$ - | \$ 32,183,790 | \$ 30,306,385 | \$ 62,490,175 |
| Education | | | | |
| Annenberg/Education Activities | - | 1,912,735 | 10,000,000 | 11,912,735 |
| Reynolds/Discovery Center | - | 943,838 | 6,500,000 | 7,443,838 |
| Reynolds/Museum Maintenance | - | 353,214 | 2,725,000 | 3,078,214 |
| Funds Functioning as Endowment | <u>58,297,899</u> | <u>-</u> | <u>-</u> | <u>58,297,899</u> |
| | 58,297,899 | 35,393,577 | 49,531,385 | 143,222,861 |
| Endowment Pledges at present value | <u>-</u> | <u>-</u> | <u>17,085,537</u> | <u>17,085,537</u> |
| Total Endowment Net Assets | <u>\$ 58,297,899</u> | <u>\$ 35,393,577</u> | <u>\$ 66,616,922</u> | <u>\$ 160,308,398</u> |

| ENDOWMENT FUND CHANGES IN NET ASSETS | | | | |
|--------------------------------------|----------------------|----------------------|----------------------|-----------------------|
| INVESTED ENDOWMENT | | | | |
| Beginning balance | \$ 53,308,332 | \$ 29,017,691 | \$ 49,198,051 | \$ 131,524,074 |
| Investment Returns | | | | |
| Investment Income | 2,303,154 | - | - | 2,303,154 |
| Investment Appreciation | 10,022,299 | - | - | 10,022,299 |
| Investment Costs | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Investment Returns | <u>12,325,453</u> | <u>-</u> | <u>-</u> | <u>12,325,453</u> |
| Appropriated for Expenditure | <u>(960,000)</u> | <u>-</u> | <u>-</u> | <u>(960,000)</u> |
| Cash Additions to Endowment | | | | |
| Donor Directed | - | - | 333,334 | 333,334 |
| Board Directed | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total New Additions | <u>-</u> | <u>-</u> | <u>333,334</u> | <u>333,334</u> |
| Reclassifications | <u>(6,375,886)</u> | <u>6,375,886</u> | <u>-</u> | <u>-</u> |
| Ending balance | <u>\$ 58,297,899</u> | <u>\$ 35,393,577</u> | <u>\$ 49,531,385</u> | <u>\$ 143,222,861</u> |

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14. ENDOWMENT FUNDS (Continued)

The following are endowment fund activities for the year ended September 30, 2014:

ENDOWMENT FUND CHANGES IN NET ASSETS

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|----------------------|
| ENDOWMENT PLEDGES | | | | |
| Beginning balance | \$ - | \$ - | \$ 16,647,255 | \$ 16,647,255 |
| New Pledges, net of discounts and payments | - | - | 438,282 | 438,282 |
| Ending balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,085,537</u> | <u>\$ 17,085,537</u> |

TOTAL ENDOWMENT NET ASSETS

| | | | | |
|---------------------------------|----------------------|----------------------|----------------------|-----------------------|
| Beginning balance | \$ 53,308,332 | \$ 29,017,691 | \$ 65,845,306 | \$ 148,171,329 |
| Changes in Endowment net assets | <u>4,989,567</u> | <u>6,375,886</u> | <u>771,616</u> | <u>12,137,069</u> |
| Ending balance | <u>\$ 58,297,899</u> | <u>\$ 35,393,577</u> | <u>\$ 66,616,922</u> | <u>\$ 160,308,398</u> |

15. SUBSEQUENT EVENTS

The Foundation has evaluated events occurring after the date of the accompanying statement of financial position through April 14, 2016, the date the financial statements are available to be issued. The Foundation did not identify any material subsequent events requiring adjustment to the accompanying financial statements.

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