



Statement of Financial Position

As of December 31,
(Unaudited)

<u>Assets</u>	2016	2015
Cash and Cash Equivalents	\$ 989,285	\$ 453,108
Merchandise Inventory	147,701	131,394
Pledges and Accounts Receivable	288,146	
Less: Discounts and Allowances for Uncollectible	(24,300)	285,164
Prepaid Expenses	101,438	65,477
<i>Total Current Assets</i>	1,502,270	935,143
Investments	43,550,126	44,417,940
Fixed Assets <i>(including Construction in Progress)</i>	12,374,010	
Less: Accumulated Depreciation and Amortization	(7,138,954)	4,445,064
Other Assets	338,890	291,885
<i>Total Assets</i>	\$ 50,626,342	\$ 50,090,032
 <u>Liabilities:</u>		
Accounts and Other Payables	\$ 181,820	\$ 198,460
Agency Deposits	1,077,678	1,018,918
Deferred Income and Unearned Life Memberships	9,146,013	8,785,280
Other Liabilities	338,890	291,885
<i>Total Liabilities</i>	10,744,401	10,294,543
 <u>Net Assets:</u>		
Unrestricted – AOG Operating Reserve	2,089,265	2,012,185
Unrestricted-designated – for Short-term Purposes	1,215,000	-
Unrestricted-designated – for Endowments	9,423,911	4,412,876
Unrestricted-undesignated	8,854,883	8,064,343
Total Unrestricted Net Assets	21,583,059	14,489,404
Temporarily Restricted	14,171,850	21,346,312
Permanently Restricted	4,127,032	3,959,773
<i>Total Net Assets</i>	39,881,941	39,795,489
<i>Total Liabilities and Net Assets</i>	\$ 50,626,342	\$ 50,090,032

Operating Statement of Activities
 For the Fiscal Period Ended December 31, 2016
 (Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	\$ 57,210	30,130	\$ 27,080	\$ 28,315
Membership Dues	416,650	420,500	(3,850)	412,367
Merchandising	339,445	283,822	55,623	302,771
Member Services	5,920	4,345	1,575	6,170
Advertising and Sponsorships	389,724	375,000	14,724	362,276
Reunion Services	220,688	177,010	43,678	190,940
Administration Fees	-	34,300	(34,300)	-
Conferences	191,364	159,000	32,364	173,245
Royalties	114,606	111,950	2,656	116,466
Football Tickets and Tailgates	17,690	33,900	(16,210)	62,451
Activities and Social Events	60,044	67,720	(7,676)	46,646
Miscellaneous Income	21,571	14,152	7,419	14,548
Subsidy from Endowment	243,028	525,150	(282,122)	260,187
Transfers from Restricted Funds	86,691	-	86,691	400,000
Total Revenues	<u>2,164,631</u>	<u>2,236,979</u>	<u>(72,348)</u>	<u>2,376,382</u>
Operating Expenses				
Salaries and Wages	1,069,018	1,047,013	22,005	1,137,997
Payroll Taxes	77,655	83,373	(5,718)	75,357
Benefits	131,895	114,151	17,744	111,672
Grants from Unrestricted Funds	2,624	2,500	124	-
Board Governance Costs	62,395	76,916	(14,521)	67,481
Professional Services	136,998	120,189	16,809	99,543
Professional Printing	93,219	116,115	(22,896)	88,586
Postage and Shipping	54,392	51,389	3,003	47,281
Merchandise Cost of Sales	215,118	174,315	40,803	183,581
Insurance and Bonding	17,364	17,610	(246)	17,392
Employee Travel and Meals	59,665	66,353	(6,688)	65,440
Social Events and Meetings	163,271	169,651	(6,380)	194,167
Office Supplies	24,982	15,265	9,717	19,525
Advertising and Corporate Promotion	62,326	71,869	(9,543)	96,404
Office Expenses	64,687	27,961	36,726	27,881
Employee Training and Education	11,149	7,915	3,234	5,441
Facilities Expenses	127,442	136,625	(9,183)	144,341
Depreciation and Amortization	285,635	211,650	73,985	205,843
Total Operating Expenses	<u>2,639,835</u>	<u>2,510,860</u>	<u>148,975</u>	<u>2,587,932</u>
OPERATING SURPLUS/(DEFICIT)	(495,204)	(273,881)	(221,323)	(211,550)
Other Income and Deductions				
Investment Interest & Dividends	235,499	314,010	(78,511)	113,508
Realized/Unrealized Gains/Losses (net)	1,713,346	70,530	1,642,816	(1,178,554)
Total Other Income and Deductions	<u>1,948,845</u>	<u>384,540</u>	<u>1,564,305</u>	<u>(1,065,046)</u>
NET SURPLUS/(DEFICIT)	\$ 1,453,641	\$ 110,659	\$ 1,342,982	\$ (1,276,596)

Operating Statement of Cash Flows

For the Fiscal Period Ended December 31,
(Unaudited)

	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net surplus/(deficit) for the period	\$ 1,453,641	(1,276,596)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	285,635	205,843
Realized/unrealized (gains) losses on investments	(2,858,800)	1,824,756
Changes in operating assets and liabilities:		
Accounts receivable	92,415	65,658
Contributions receivable, net	-	(1,018)
Inventory and prepaid expenses	(86,384)	1,045
Accounts payable and accrued expenses	(27,975)	(48,170)
Construction-in-progress and other assets	(24,378)	(5,839)
Deferred revenue	(27,855)	(13,100)
Other liabilities	24,378	5,839
Net cash (used in) provided by operating activities	(1,169,323)	758,418
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(382,798)	(13,009,222)
Proceeds from the sale of investments	814,552	8,045,808
Purchases of property and equipment	(138,480)	(118,579)
Net cash used in investing activities	293,274	(5,081,993)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net cash collected/(expended) for long-term purposes	(190,392)	4,212,437
Net cash (used in) provided by financing activities	(190,392)	4,212,437
Net decrease in cash and cash equivalents	(1,066,441)	(111,138)
Cash and cash equivalents, beginning of year	2,055,726	564,246
Cash and cash equivalents at December 31,	\$ 989,285	\$ 453,108

Funds Held in Short-term Accounts
 For the Fiscal Period Ended December 31, 2016
 (Unaudited)

	<u>Actual</u>	<u>Percentage</u>
Petty Cash	\$ 600	0.06%
Operating Funds in Bank	988,685	99.94%
TOTAL	\$ 989,285	100.00%

Schedule of Investments
 For the Fiscal Period Ended November 30,
 (Unaudited)

	<u>2016</u>	<u>%</u>	<u>Target</u>	<u>Max</u>
U. S. Equities (value and growth)	\$ 14,383,051	33.03%	30.0%	50.0%
International Equities	12,565,598	28.86%	30.0%	50.0%
Emerging Markets	1,756,842	4.03%	5.0%	10.0%
Real Estate/REITs	179,609	0.41%	5.0%	15.0%
Fixed Income	8,574,448	19.69%	15.0%	30.0%
Alternatives	3,921,068	9.00%	10.0%	20.0%
Master Limited Partnerships	2,168,188	4.98%	5.0%	10.0%
Investable Cash and unsold stock	1,322	-	-	10.0%
TOTAL	\$ 43,550,126	100.00%	100.0%	

Schedule of Capital Additions
 For the Fiscal Period Ended December 31, 2016
 (Unaudited)

	Actual	Budget
<i>Paid with operating funds:</i>		
Building and Grounds	\$ -	\$ -
Landscaping	-	15,000
Office Equipment	9,259	11,300
Vehicles	-	-
Furniture & Fixtures	12,058	-
Computer Equipment	20,053	30,400
Sabers	-	-
Maintenance Equipment	-	-
Other (incl. available IBM credits)	3,000	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	7,419	3,650
	51,789	60,350
<i>Paid with restricted funds:</i>		
Air Conditioning Control System	69,446	103,000
Heritage Trail Asphalt/Concrete	12,360	-
Replace Fire Alarm Control Panel	4,885	-
Office-area South Entrance Upgrade	-	-
	86,691	103,000
TOTAL	\$ 138,480	\$ 163,350

Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended December 31, 2016

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	\$ 464,873	\$ 350,000	\$ 114,873	\$ (32,446)
Donations and Contributions	21,373	30,130	(8,757)	24,206
Membership Dues	317,403	315,500	1,903	307,462
Merchandising	339,404	283,822	55,582	299,212
Member Services	5,920	4,345	1,575	6,170
Advertising and Sponsorships	363,868	375,000	(11,132)	353,101
Reunion Services	220,688	177,010	43,678	190,939
Administration Fees	-	34,300	(34,300)	-
Conferences	191,364	159,000	32,364	173,245
Royalties	114,606	111,950	2,656	112,176
Football Tickets and Tailgates	17,690	33,900	(16,210)	62,451
Activities and Social Events	60,044	67,720	(7,676)	42,296
Miscellaneous Income	21,167	14,152	7,015	14,379
Subsidy from Endowment	314,179	525,150	(210,971)	344,590
Transfers from Restricted Funds	86,691	-	86,691	400,000
Total Revenues	2,539,270	2,481,979	57,291	2,297,781
Operating Expenses				
Salaries and Wages	1,069,018	1,047,013	22,005	1,137,997
Payroll Taxes	77,655	83,373	(5,718)	75,357
Benefits	131,940	114,151	17,789	111,672
Grants from Unrestricted Funds	4,124	2,500	1,624	-
Board Governance Costs	62,395	76,916	(14,521)	64,981
Professional Services	136,047	120,189	15,858	109,776
Professional Printing	93,367	116,115	(22,748)	88,586
Postage and Shipping	54,392	51,389	3,003	47,275
Merchandise Purchases	269,568	261,825	7,743	183,467
Insurance and Bonding	-	-	-	-
Employee Travel and Meals	59,665	66,353	(6,688)	65,440
Social Events and Meetings	172,227	169,651	2,576	206,707
Office Supplies	24,982	15,265	9,717	19,525
Advertising and Corporate Promotion	57,364	71,869	(14,505)	90,229
Office Expenses	61,243	27,961	33,282	36,211
Employee Training and Education	13,691	7,915	5,776	6,899
Facilities Expenses	181,617	136,625	44,992	171,332
Total Operating Expenses	2,469,295	2,369,110	100,185	2,415,454
OPERATING SURPLUS/(DEFICIT)	69,975	112,869	(42,894)	(117,673)
Operating Capital Purchases	51,789	30,175	21,614	9,176
NET SURPLUS/(DEFICIT)	\$ 18,186	\$ 82,694	\$ (64,508)	\$ (126,849)



Unaudited Financial Statements
For the Fiscal Period Ended December 31, 2016

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results through the second quarter ended December 31, 2016 (pages 1 through 5) were prepared in accordance with generally accepted accounting principles (GAAP). Page 6 represents a Cash Basis Operating Statement as additional information. For comparability purposes the prior year-to-date information is shown as it was reported at the time. Page 1 shows the financial position of the AOG as of the end of the quarter compared to the previous year as reported at the time. The total assets of the organization were about \$50.63 million, an increase of just over \$536,000 [1.07%] from \$50.09 million at December 31 the previous year, primarily the result of cash held in the operating account that is expected to be used to fulfill restricted fund obligations, as well as operating needs; the funds were largely from the Dorothy Moller Trust distribution in December. Fixed assets increased by the inclusion of the POW Memorial and Plaza of Heroes. Liabilities of the organization (primarily the unearned life membership funds) increased by about \$450,000 year-over-year. Unrestricted net assets reflect funds that the Board has designated [\$4.4 million] to support restricted purposes or funds, where the Board has discretion to modify the support in the future, as well as the balance of the funds remaining at December 31 to support ramp up of the USAFA Endowment's capital campaign and other Academy aviation training needs. Total net assets increased by just over \$86,400 year-over-year.

The Operating Statement of Activities shows preliminary operating results through mid-year with approximately \$2.165 million in operating revenues, and operating expenses of about \$2.640 million. The result is an operating deficit of about \$495,200, versus a budgeted deficit of \$273,900. Overall, while revenues fell short of the annual budget by about \$72,300 [3.23%], operating expenses were about 5.14% [about \$149,000] higher than anticipated. Compared to the previous year as reported, the operating results decreased by about \$283,700. Excluding the one-time Francis Bennett contribution to operations of \$400,000 in FY 2016, total revenues would have been higher by about \$188,000, while operating expenses were larger by only \$51,900, or 2.0%. There was continued recovery in the securities markets through November, which lead to very significant net allocated investment income to operations of approximately \$1.949 million. The remaining returns not reflected on the operating statement have been allocated to temporarily restricted funds and the temporary portion of endowments in accordance with the Financial Management and Investment Policy (FMIP).

For operations, there was a net GAAP-basis surplus of approximately \$1.454 million in these preliminary statements, though the allocated December investment returns have not yet been posted in these statements.

Revenues

- **Donations and contributions** reflect new direct gifts from donors (largely the unexpected AOG share of the Robert Mazet estate distribution) and recognized gifts-in-kind, which resulted in a positive variance to the year-to-date budget.
- **Membership dues** were right in line with expectations for the year across all membership types, and were slightly higher than the previous year. We continue to campaign for cadets, parents and non-member graduates to connect, or re-connect, to the Academy and their alma mater. Year-to-date, the revenue shown consisted of \$105,000 of recognized life memberships and over \$311,600 of new and continuing other memberships.
- Strong **merchandise sales** far exceeded the budget for the two quarters, by almost 20%, and represented a 12% increase from the previous year activity.
- **Advertising and sponsorship revenue** was strong through the second quarter, and exceeded the budget by 3.9%. The results include the procurement of a number of new sponsors and renewals for events, tailgates and True Blue community involvement.
- **Reunion services revenue** reflects administration fees and events for the reunions that took place through the cycle. Second quarter registrations were very strong, especially the 1966 and 1976 classes for their reunion weekends. Actual turnout and event revenue was approximately 25% greater than the budget, and more than 15% better than FY 2016.
- **Administration fees** for management of the portfolio that is apportioned to endowments, quasi-endowments and agency funds and will be reflected after the December investment returns posting and allocation.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conference (SACC) and exceeded expectations through the second quarter by more than 20%.
- The **royalty income** received was right in line with budget expectations.
- **Tailgate registration income** was \$16,200 below what was anticipated primarily because of reduced registration fees charged for the tailgates at the Cotton Bowl and Arizona Bowl.
- **Activities and social events revenue** for fee-based special events remained about 11% under budget primarily due to the cancellation of the Atlanta golf tournament due to low sign-ups.
- **Miscellaneous income** reflects higher than anticipated year-to-date service revenue from the event management software charges and unbudgeted affinity revenue from sources like USAA and AmazonSmile programs.

- The **subsidy revenue** from the USAFA Endowment reflects the recognized proportionate share of contributions from July and November for Air Force Academy Fund receipts and reversal of the year-end accrual for June 2016.

Expenses

- **Salaries and wages** through December were about \$22,000 over the year-to-date budget primarily due to non-budgeted holiday and special bonuses awarded in mid-December.
- **Payroll taxes**, including Social Security and Colorado unemployment taxes were each below budget expectations; Medicare taxes were slightly above year-to-date expectations.
- Though **benefits** paid reflect the better-than-expected negotiated renewal medical insurance premiums, the posted expenses for all insurance coverage reflect premium payments for January. AOG-paid contributions to the 401k retirement plan were slightly lower than budgeted.
- **Grants from unrestricted funds** included a non-cash gift-in-kind of Bed-and-Breakfast appointees for the Prep School, which was not forecast in the budget.
- Year-to-date **board governance costs** were well under the budget, primarily due to less allocated staff salaries and wages.
- The costs for **professional services** were about 14% higher than budget through the second quarter, primarily because of higher than anticipated contractor work for parent membership and non-budgeted contractor chapter support. Also included is late payment of contract Doolittle Hall facilities maintenance for June 2016.
- **Professional printing** charges for the year did not yet include costs for the December *Checkpoints* magazine printing and was, therefore, almost 20% under budget year-to-date.
- Actual expenditures for **postage and shipping** were close to the year-to-date expectations, but include a later second quarter postage meter refill that wasn't anticipated until the third quarter in the budget.
- The **cost of merchandise sold** reflects the FIFO inventory valuation method and the higher volume of sales year-to-date.

	Actuals		Budget	
Sales	\$ 339,445	100.0%	\$ 283,822	100.0%
Cost of Sales	215,118	63.4%	174,315	61.4%
Gross margin	\$ 124,327	36.6%	\$ 109,507	38.6%

- **Employee travel and meals** were about 10.1% below the year-to-date budget, largely due to good cost containment for airfare, meals and reimbursed mileage.
- Year-to-date catering expenses for **social events and meeting expenses** were significantly lower than anticipated through mid-year, and accounted exclusively for the under-budget variance.

- **Office supplies** purchased to enhance the reunions activities reflected the majority of the over-budget variance.
- **Advertising and corporate promotion** expenses through the second quarter were more than 13% below the year-to-date budget primarily related to giveaway merchandise for reunions, membership activities, and general and administrative functions.
- The costs captured in other **office expenses** included expenditures for an unbudgeted mentorship license subscription, as well as an earlier-than-expected CASE submission subscription. There were also much higher than anticipated overhead costs allocated to operations.
- The **employee training and education** expenditures reflect fees for CASE and Blackbaud conference attendance, with more IT staff participating at the Blackbaud seminar in anticipation of the conversion to the NXT platform for Raisers Edge and Financial Edge. Non-budgeted career coaching education is also included in the over-budget variance.
- Year-to-date **facilities expenses** were primarily lower for repair and maintenance expenditures year-to-date, delayed utilities billings from DFAS, as well as lower vehicle maintenance expenses than anticipated.
- **Depreciation and amortization** costs far exceeded the year-to-date budget primarily because the Plaza of Heroes was not anticipated when the budget was prepared.

Investment Income

The investment results allocated to AOG operations reflected net market gains in all sectors except the small real estate fund and bonds. Excluding those sectors, the total balanced portfolio registered an 8.40% fiscal year return through November, especially U. S. equity, and developed foreign and emerging markets equities. Net allocated gains were approximately \$1.949 million, consisting of investment interest and dividends received and reinvested of approximately \$235,500 and unrealized (market) gains of about \$1.715 million. There were also allocated advisor management fees of about \$1,987. Most recently, about 59.25% of the entire portfolio investment results were allocated to AOG operations, based on the guidelines of the FMIP.

Operating Statement of Cash Flows

The statement of cash flows on page 3 shows that there was a net decrease in cash and cash equivalent funds for the two quarters of about \$1.07 million from the beginning of the fiscal year.

Funds Held in Short-term Accounts

The supplemental information regarding cash and cash equivalent accounts showed operating funds of about \$989,300, including petty cash at December 31. Short-term investable cash held at our custodian is reflected in investments report.

Schedule of Investments

Investment sector values through November were reflected in the supplemental schedule on page 4, and compares the actual allocation to the target percentage as provided for in the FMIP. There were market gains in every sector except the real estate holding and bonds. There was short-term investable cash of just over \$1,300 at the end of the quarter. All of the portfolio securities values through November, except the real estate investment trust, had been received by the preparation time for these financial statements.

Schedule of Capital Additions

The schedule on page 5 showed capital purchases through the end of the second quarter and reflects the expenditures by operations and restricted funds, in accordance with the approved fiscal year budget. There was a transfer of funds to operations for those fixed assets supported by restricted funds, which is reflected on the Statement of Activities.

Cash Basis Operating Statement of Activities

The final page of the presented financial statements (page 6) is the comparison of the cash flow activities to the year-to-date cash budget for operations only. The statement shows that the organization had a small surplus of approximately \$70,000 from operating functions and about an \$18,200 net surplus after consideration for operating capital purchases.

Revenues

- **Investment income and distributions** reflected several draws for operations of the first quarter investable cash balance [\$814,200] and the operating account bank interest through the end of the quarter.
- Total **donations and contributions** recognized were all one-time gifts received from various donors.
- **Membership dues** received and recognized included about \$35,000 in annual memberships and about \$282,400 of class club, parent, and family memberships. Because of the uncertainty as to timing, cash memberships are prorated evenly over four quarters for the fiscal year budget.
- **Subsidy from the Endowment** reflected actual receipts from June 2016 through November 2016 of allocated USAFA Endowment Air Force Academy Fund gifts transferred to the AOG. The allocated share to the AOG is about 40% below budget expectations.

- All other revenue receipts have been addressed in the GAAP-basis discussion and are relevant to the cash-basis reporting.

Expenses

- **Merchandise purchases** on a cash basis, including corresponding shipping costs, represent non-inventory merchandise bought during the reporting period, as well as inventory stocking and restocking of new and longstanding items. Actual expenditures slightly exceeded the expected spending rate budget through December.
- The **insurance and bonding** premium payments will be made for all renewed lines of coverage in March, therefore, there is no expense shown on a cash basis until that time.
- **Advertising and corporate promotion** expenditures on a cash basis do not include the recognized value of give-away items that were not purchased during the fiscal year, reflecting the GAAP-basis reporting variance.
- The **employee training and education** difference to the GAAP-basis presentation reflects an annual subscription that is amortized over 12 months.
- Year-to-date **facilities expenses** paid were significantly higher [about 43%] than the GAAP-basis expenses largely due to the annual maintenance fees paid during the second quarter for Blackbaud products (Raisers Edge, Financial Edge, Net Community) NXT versions, each of which were deferred and amortized over the succeeding 12 months after payment for GAAP accounting purposes.
- All other significant cost elements have been discussed in the previous accrual basis analysis and are relevant to cash basis reporting.