ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Statement of Financial Position

As of June 30,
(Unaudited)

		2018	2017
Assets			
Cash and Cash Equivalents		$ 540,063	$ 790,760
Merchandise Inventory		154,334	142,721
Pledges and Accounts Receivable	341,454		
Less: Discounts and Allowances for Uncollectible	(28,200)	313,254	368,956
Prepaid Expenses		96,526	83,533
Total Current Assets		1,104,177	1,385,970
Investments		50,387,752	45,793,308
Fixed Assets *(including Construction in Progress)*	12,365,796		
Less: Accumulated Depreciation and Amortization	(7,728,898)	4,636,898	5,043,756
Other Assets		278,148	381,783
Total Assets		$ 56,406,975	$ 52,604,817
Liabilities:			
Accounts and Other Payables		$ 165,782	$ 202,019
Agency Deposits		1,468,106	1,163,128
Deferred Income and Unearned Life Memberships		9,536,171	9,034,602
Other Liabilities		278,148	381,783
Total Liabilities		11,448,207	10,781,532
Net Assets:			
Unrestricted – AOG Operating Reserve		2,795,961	2,000,000
Unrestricted-designated – for Short-term Purposes		690,000	1,215,000
Unrestricted-designated – for Endowments		10,821,823	9,423,911
Invested in Property and Equipment		4,636,898	5,043,756
Unrestricted-undesignated		5,516,728	6,010,843
Total Unrestricted Net Assets		24,461,410	23,693,510
Temporarily Restricted		14,518,360	14,000,427
Permanently Restricted		5,978,998	4,129,348
Total Net Assets		44,958,768	41,823,285
Total Liabilities and Net Assets		$ 56,406,975	$ 52,604,817

Operating Statement of Activities

For the Fiscal Period Ended June 30, 2018
(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	$ 300,862	$ 220,920	$ 79,942	$ 269,380
Membership Dues	880,070	835,180	44,890	822,085
Merchandising	600,204	599,989	215	640,219
Member Services	15,099	20,565	(5,466)	20,825
Advertising and Sponsorships	472,538	518,000	(45,462)	523,000
Reunion Services	173,928	171,010	2,918	204,250
Administration Fees	36,517	71,300	(34,783)	33,614
Conferences	303,029	293,000	10,029	291,114
Royalties	121,243	135,800	(14,557)	132,545
Football Tickets and Tailgates	98,562	59,700	38,862	24,593
Activities and Social Events	143,085	130,970	12,115	138,229
Miscellaneous Income	51,297	45,120	6,177	46,339
Subsidy from Endowment	847,854	1,045,172	(197,318)	756,175
Transfers from/(to) Restricted Funds	228,316	(13,000)	241,316	(140)
Total Revenues	4,272,604	4,133,726	138,878	3,902,228
Operating Expenses				
Salaries and Wages	1,978,000	2,078,189	(100,189)	2,142,207
Payroll Taxes	151,978	165,216	(13,238)	159,480
Benefits	251,482	260,578	(9,096)	245,349
Grants from Unrestricted Funds	19,983	31,300	(11,317)	25,674
Direct Governance Costs	26,227	37,035	(10,808)	121,804
Professional Services	263,383	253,894	9,489	248,871
Professional Printing	236,665	233,925	2,740	269,070
Postage and Shipping	112,334	106,395	5,939	116,349
Merchandise Cost of Sales	422,910	368,380	54,530	354,971
Insurance and Bonding	35,349	35,201	148	34,857
Employee Travel and Meals	54,560	86,544	(31,984)	96,736
Social Events and Meetings	307,990	276,605	31,385	259,572
Office Supplies	27,163	26,982	181	25,756
Advertising and Corporate Promotion	88,571	96,759	(8,188)	105,950
Office Expenses	188,280	115,389	72,891	108,018
Employee Training and Education	2,512	10,141	(7,629)	20,042
Facilities Expenses	277,772	260,363	17,409	261,397
Depreciation and Amortization	580,911	606,885	(25,974)	579,798
Total Operating Expenses	5,026,070	5,049,781	(23,711)	5,175,901
OPERATING SURPLUS/(DEFICIT)	(753,466)	(916,055)	162,589	(1,273,673)
Other Income and Deductions				
Investment Interest & Dividends	683,049	532,720	150,329	563,245
Realized/Unrealized Gains/(Losses)	1,351,810	642,380	709,430	4,128,536
Gains/(Losses) on Disposal of Assets	-	-	-	(3,424)
Total Other Income and Deductions	2,034,859	1,175,100	859,759	4,688,357
NET SURPLUS/(DEFICIT)	$ 1,281,393	$ 259,045	$ 1,022,348	$ 3,414,684

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Operating Statement of Cash Flows

For the Fiscal Period Ended June 30,
(Unaudited)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus/(deficit) for the period	$ 1,281,393	$ 3,414,684
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	580,911	579,798
Unrealized (gains) losses on investments	863,614	(1,147,584)
Unrealized (gains) losses on disposal of fixed assets	-	3,424
Changes in operating assets and liabilities:		
Accounts receivable	68,681	(20,486)
Contributions receivable, net	34	-
Inventory and prepaid expenses	29,796	(58,295)
Accounts payable and accrued expenses	(59,226)	(6,251)
Construction-in-progress and other assets	103,634	(67,271)
Deferred revenue	114,382	(34,266)
Other liabilities	(103,634)	67,271
Net cash provided by operating activities	2,879,585	2,731,024
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(20,188,230)	(27,892,880)
Proceeds from the sale of investments	14,721,661	24,370,240
Purchases of property and equipment	(174,264)	(241,467)
Net cash used in investing activities	(5,640,833)	(3,764,107)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash received for long-term purposes	2,517,143	(231,883)
Net cash provided for financing activities	2,517,143	(231,883)
Net decrease in cash and cash equivalents	(244,105)	(1,264,966)
Cash and cash equivalents, beginning of year	784,168	2,055,726
Cash and cash equivalents at June 30,	$ 540,063	$ 790,760

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Funds Held in Short-term Operating Accounts

For the Fiscal Period Ended June 30, 2018
(Unaudited)

	Actual	Percentage
Petty Cash	$ 209	0.04%
Operating Funds in Bank	539,854	99.96%
TOTAL	$ 540,063	100.00%

Schedule of Investments

For the Fiscal Period Ended June 30,
(Unaudited)

	2018	%	Target	Max
Short-term Investment Pool	$ 7,305,441	14.50%	15.0%	20.0%
U. S. Equities (value and growth)	11,971,004	23.76%	30.0%	50.0%
International Equities	11,293,868	22.41%	30.0%	50.0%
Emerging Markets	1,775,994	3.53%	5.0%	10.0%
Real Estate/REITs	2,168,666	4.30%	5.0%	15.0%
Fixed Income	9,382,512	18.62%	10.0%	30.0%
Alternatives	3,026,942	6.01%	15.0%	20.0%
Master Limited Partnerships	2,087,654	4.14%	5.0%	10.0%
Investable Cash and unsold stock	1,375,671	2.73%	-	10.0%
Total Long-term Investment Pool	43,082,311	100.00%	100.0%	
TOTAL	$ 50,387,752	100.00%	100.0%	

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Schedule of Capital Additions

For the Fiscal Period Ended June 30, 2018
(Unaudited)

	Actual	Annual Budget
Paid with operating funds:		
Building and Grounds	$ -	$ -
Landscaping	38,847	16,000
Office Equipment	4,692	11,500
Vehicles	-	-
Furniture & Fixtures	-	-
Computer Equipment	20,489	20,900
Sabers	-	-
Other *(incl. available IBM credits)*	(413)	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	1,500
Total for operating funds	63,615	49,900
Paid with restricted funds:		
HVAC Steam Pressure Valve	79,694	75,000
Maintenance Vehicle/Plow Truck	-	45,000
Front Lot Upgrade (around Flagpole)	-	30,000
Replace air conditioning controller	2,448	-
Heritage Trail West Addition	19,190	-
Reglaze 6 Windows	9,317	-
Water Pond Repair/Replacement	-	2,500
Tree Grove Bridge Replacement	-	2,500
A/C Chiller Pad Overhang	-	8,000
Total for restricted funds	110,649	163,000
TOTAL	$ 174,264	$ 212,900

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended June 30, 2018
(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	$ 598,432	$ 600,000	$ (1,568)	$ 1,089,489
Donations and Contributions	298,269	200,520	97,749	208,118
Membership Dues	670,983	612,680	58,303	667,798
Merchandising	600,204	599,989	215	640,177
Member Services	15,099	20,565	(5,466)	20,825
Advertising and Sponsorships	433,474	518,000	(84,526)	490,734
Reunion Services	246,859	171,010	75,849	218,725
Administration Fees	36,723	71,300	(34,577)	33,614
Conferences	303,029	293,000	10,029	291,114
Royalties	121,243	135,800	(14,557)	132,545
Football Tickets and Tailgates	154,575	59,700	94,875	24,593
Activities and Social Events	137,420	130,970	6,450	134,988
Miscellaneous Income	51,292	45,120	6,172	45,935
Subsidy from Endowment	937,519	1,045,172	(107,653)	737,661
Transfers from/(to) Restricted Funds	228,316	(13,000)	241,316	(12,500)
Total Revenues	4,833,437	4,490,826	342,611	4,723,816
Operating Expenses				
Salaries and Wages	1,978,000	2,078,190	(100,190)	2,142,207
Payroll Taxes	151,978	165,216	(13,238)	159,480
Benefits	251,806	260,578	(8,772)	244,687
Grants from Unrestricted Funds	16,283	10,900	5,383	14,474
Direct Governance Costs	26,227	37,035	(10,808)	121,804
Professional Services	263,907	253,894	10,013	247,069
Professional Printing	256,774	233,925	22,849	269,217
Postage and Shipping	112,312	106,395	5,917	116,349
Merchandise Purchases	398,045	384,100	13,945	406,396
Insurance and Bonding	35,814	37,910	(2,096)	35,114
Employee Travel and Meals	54,560	86,544	(31,984)	96,736
Social Events and Meetings	317,947	276,605	41,342	247,389
Office Supplies	26,969	26,982	(13)	25,756
Advertising and Corporate Promotion	81,961	96,759	(14,798)	98,881
Office Expenses	196,987	115,389	81,598	111,200
Employee Training and Education	2.512	10,141	(7,629)	18,633
Facilities Expenses	285,028	260,363	24,665	277,118
Total Operating Expenses	4,457,110	4,440,926	16,184	4,632,510
OPERATING SURPLUS/(DEFICIT)	376,327	49,900	326,427	91,306
Operating Capital Purchases	63,615	49,900	13,715	91,280
NET SURPLUS/(DEFICIT)	$ 312,712	$ -	$ 312,712	$ 26

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Unaudited Financial Statements
For the Fiscal Period Ended June 30, 2018

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results through the fiscal year ended June 30, 2018 (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 year compared to the previous year as reported at the time. The total assets of the organization were about $56.41 million, an increase of approximately $3.80 million [7.23%] from $52.60 million at June 30 the previous year, primarily from growth of the investment portfolio. Fixed assets decreased in total by about $407,000, reflecting the year-to-date depreciation, offset by asset additions throughout the year. Liabilities of the organization increased by about $666,700, year-over-year, showing the added deferred life memberships and growth of agency accounts from allocated investment returns. Unrestricted net assets include funds that the Board has designated [approximately $2.80 million] as the base reserve; designated funds to support restricted purposes, where the Board has discretion to modify the support in the future; as well as the balance of the funds remaining at June 30 to support the USAFA Endowment's comprehensive campaign. The final year-end adjustment of designated net assets had not been completed by the reporting date. Total net assets increased by just over $3.135 million year-over-year, largely resulting from the net positive investment returns.

The Operating Statement of Activities shows **preliminary** operating results for the fiscal year with approximately $4.273 million in operating revenues, and operating expenses of about $5.026 million. The result is an operating deficit of about $753,500, versus a budgeted deficit of about $916,100. Overall, revenues exceeded the annual budget by about $138,900, or 3.36%. Operating expenses were about 0.5% [about $23,700] lower than budgeted. While there were plus and minus variances in all of the cost elements, reductions of note include: salaries and wages, with corresponding lower payroll taxes and benefits; direct Board of Directors costs; employee travel costs; and, depreciation. Merchandise costs of sales reflect a book entry in the third quarter to reconcile the inventory on hand, and office expenses were budgeted for a full year cost reduction from the previous operating contract with the USAFA Endowment. The under budget variances are also partially offset by overages in meeting expenses for Founders' Day, professional services, postage and shipping, and facilities maintenance and utilities costs.

Investment income allocation to operations through June, on a total return basis, was approximately $2.03 million, and shows better than expected market returns, though there was a contraction in the general markets for February, March, and June. 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 $1.281 million in these preliminary statements through the fiscal year.

Revenues

- **Donations and contributions** reflect new direct gifts from donors (including the final distribution from the Francis Bennett estate, and an unexpected charitable trust distribution) and recognized gifts-in-kind, such as the Prep School bed-n-breakfast program and donated gifts. These resulted in a positive variance to the year-to-date budget by about $80,000.
- **Membership dues** revenue shown through the year consisted of $210,000 of recognized life memberships and approximately $670,100 of new and continuing other memberships, and exceeded the budget by 5.4%, though the final life membership amortization had not been made yet.
- **Merchandising** sales recovered in the fourth quarter to equal the year budget through the reporting period.
- **Advertising and sponsorship revenue** was short of the annual budget by about 8.8%.
- **Reunion services revenue** reflects administration fees and events for the reunions that took place, and slightly exceeded expectations.
- **Administration fees** for management of the investment portfolio are apportioned to endowments, quasi-endowments and agency funds and are posted only semi-annually in December and June. The June adjustment had not been calculated at reporting time, but is expected to approximate budget.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conferences (SACC) and exceeded the annual budget by $10,000, about 3.4%.
- **Royalty income** received was below the budget [about 11%] because partnering relationships with some suppliers had not generated expected results.
- **Tailgate registration income** far exceeded expectations, primarily the attendance at reunion tailgate activities and watch parties, which were not anticipated in the budget.
- **Activities and social events revenue** for fee-based special events surpassed budget expectations by about 9.3%, and non-class related events like golf tournaments that added to activity revenue.
- The total **subsidy revenue** received from the USAFA Endowment was well below expectations by just under $197,300 and reflects the recognized

proportionate share of contributions for Air Force Academy Fund receipts and agreed support grants.

- The **transfer of restricted funds** amount reflects the Heritage Initiatives and Preservation project payment for new touch screens (fixed assets) in the Southeast Asia Pavilion, and a transfer from the Long Blue Line Endowment accumulated earnings fund to support operations.

Expenses

- **Salaries and wages** were just under $100,200 below budget for the year, primarily due to unfilled budgeted positions. The budgeted Chief Operating Officer position is not anticipated to be filled, and the retirements of the Executive Vice President and Senior VP for Communications in the latter part of the year resulted in salary savings.
- All elements of **payroll taxes,** including Medicare, Social Security and Colorado unemployment, were below budget expectations, and follow the lower total salaries and wages.
- Most **benefits** paid were under budget for the year, especially safe harbor contributions to employee 401k accounts, due to the lower salaries and wages. Medical insurance premiums paid were a slight offset, as they exceeded the budget by about $4,300, or 2.8%.
- **Grants from unrestricted funds** included non-cash gift-in-kind of Bed-and-Breakfast appointees for the Prep School and support for the 70th Air Force anniversary activities; however, the gift-in-kind for the Class of 2022 appointees had not yet been posted for these preliminary financial statements.
- The **direct governance costs** shown reflect only those expenses paid specifically for Board support; anticipated expenditure for professional help relating to an election had not been invoiced from the attorney.
- The costs for **professional services** exceeded the annual budget primarily because the contract help used for communications publications (Checkpoints, etc.) had not been included in the budget.
- **Professional printing** charges were only slightly above the expected budget.
- Actual expenditures for **postage and shipping** exceeded the year budget due to international mailings of *Checkpoints* magazine, which had not been anticipated in the budget.
- The **merchandise cost of sales** reflects the FIFO inventory valuation method. Calculation of the gross margin on sales is below.

	Actuals		Budget	
Sales	$ 600,204	100.0%	$ 599,989	100.0%
Cost of Sales	422,910	70.5%	368,380	61.4%
Gross margin	$ 177,294	29.5%	$ 231,609	38.6%

When switching over to the new inventory control system an inventory count was conducted and resulted in a large adjustment to reconcile the general ledger to inventory on hand.

- All elements of **employee travel and meals** were below the annual budget, largely for expected airfare, hotel expenses and meals. CEO travel was much less than expected in the budget.
- Set up costs for Founders' Day events in Arnold Hall were significantly higher than the budget, which anticipated the venue to be held in the Falcon Club. Therefore, **social events and meeting expenses** exceeded the budget by more than 11.3%.
- **Advertising and corporate promotion** expenses through the year were well below the expected budget for general administrative and business operations functions, but were offset somewhat by higher communications costs. Overall, they were below budget by approximately 8.5%.
- The costs captured in other **office expenses** were significantly over the annual budget primarily due to software subscription costs and an unbudgeted professional membership for the career services platform, as well as unanticipated software expenditures for the merchandise inventory control system. The budget anticipated a full year of cost reduction from the operating contract with the USAFA Endowment, but that provision was discontinued in the new agreement beginning in January.
- The **employee training and education** expenditures were well below the budget expectation as, ultimately, training attendance at the annual Blackbaud conference was curtailed.
- **Facilities expenses** were about 6.7% higher than the year budget, mainly from unexpected repair and maintenance expenditures, including the recognized monthly Blackbaud NXT fees, a late June electricity bill from the Academy, and a DFAS adjustment bill for natural gas from FY 2016.
- **Depreciation and amortization** costs were below the expected budget for the year.

Investment Income

The investment results allocated to AOG operations reflected net market adjustments and interest and dividends through March. Generally, equities and alternative investments yielded year-to-date gains, while bonds, real estate and the master limited partnership fund underperformed expectations. Through May, the total fiscal year balanced portfolio, excluding the short-term account, registered a 9.57% return, and a 6.73% cumulative return from inception in October 2003, each exceeding the balanced index. Net allocated gains to operations were approximately $2.03 million, consisting of investment interest and dividends received and reinvested of approximately $683,000, and net realized and unrealized (market) gains of about $1.356 million. There were also allocated advisor management charges of about $4,600. The short-term account registered a 0.22% gain through May. For June, about 62.5% of the entire portfolio investment results were allocated to AOG operations, based on the guidelines of the FMIP.

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

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 year of about $244,100 from the beginning of the fiscal year, with approximately $2.88 million provided by operations, $5.64 million (gross) used in managing the investment portfolio and fixed assets, and a net increase of about $2.52 million (primarily the two semi-annual Moller Trust distributions) for long-term purposes.

Funds Held in Short-term Operating Accounts

The supplemental information regarding cash and cash equivalent accounts showed operating funds of about $540,100, including petty cash at June 30. Short-term investable cash held at our custodian is reflected in investments report.

Schedule of Investments

Investment sector values at June 30 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 net market gains in the domestic and international equities, emerging markets, and alternative investments sectors; however, changing global conditions led to market losses for bonds and the master limited partnership holding. All of the portfolio securities values through June, except the foreign managed real estate investment trust and distribution from the balance of the Sandalwood holding, had been received by the preparation time for these financial statements; those assets are both in liquidation.

Schedule of Capital Additions

The schedule on page 5 showed capital purchases for the year and reflects the expenditures by operations and restricted funds, in accordance with the approved fiscal year budget. As needed, there will be a transfer of funds to operations for those fixed assets supported by restricted funds, which will then be reflected in the Statement of Activities. Some expenditure may have been approved in previous year budgets, and changes to expected additions are based on varying needs during the year, such as the total of seven Distinguished Graduate pedestals and plaques.

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 approved cash budget for operations only. The statement shows that the organization had a surplus of approximately $376,300 from operating functions and about a $312,700 net surplus after operating capital purchases. Important variances to GAAP-basis reporting are included below.

Revenues

- **Investment income and distributions** reflected transfers from the short-term investment account to the bank account for operating purposes, as well as bank interest received.
- Total **donations and contributions** recognized were all one-time gifts received from various donors. There was one minor outstanding pledge payment received.
- **Membership dues** received and recognized included about $77,300 in annual memberships and about $593,700 of prep and class club, parent, and family memberships.
- **Reunion services** receipts shown reflect the new approach to accomplishing the services we provide for the classes. A significant amount of those cash receipts have been deferred on the GAAP-basis report until earned in the next fiscal year.
- **Subsidy from the Endowment** reflected actual receipts from July through January of allocated USAFA Endowment Air Force Academy Fund gifts transferred to the AOG, plus the agreed monthly support in the new MOU through June.
- All other revenue receipts have been addressed in the GAAP-basis discussion and are relevant to the cash-basis reporting.

Expenses

- The variance to the GAAP-basis **professional printing** costs is due exclusively to the accrued payment for the 2017 Parents' Handbook in this fiscal year.
- **Merchandise purchases** on a cash basis, including corresponding shipping and handling costs, represent non-inventory merchandise bought during the year, as well as inventory stocking and restocking of new and longstanding items. Actual expenditures exceeded the budget by about $14,000.
- The **insurance and bonding** premiums reflect lines of coverage that were renewed and paid in March.
- Payment of an accrued Dayton golf tournament catering expense from 2017 identifies the difference in the GAAP- and cash-basis **social events and meetings** expenses.
- The **offices expenses** variance to GAAP-basis reporting shows the deferral of the three-year license for the AOG mobile app subscription, to be amortized in later periods.
- Year-to-date **facilities expenses** paid were slightly higher than the GAAP-basis expenses primarily because the annual maintenance fees for Blackbaud products (Raisers Edge, Financial Edge, Net Community) NXT versions were invoiced and paid but are 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.