

Statement of Financial Position

As of March 31,
(Unaudited)

<u>Assets</u>	2018	2017
Cash and Cash Equivalents	\$ 442,625	\$ 655,125
Merchandise Inventory	137,223	128,684
Pledges and Accounts Receivable	354,781	
Less: Discounts and Allowances for Uncollectible	(28,200)	322,325
Prepaid Expenses	122,480	122,587
<i>Total Current Assets</i>	1,028,909	1,228,721
Investments	48,770,288	46,790,000
Fixed Assets <i>(including Construction in Progress)</i>	12,232,051	
Less: Accumulated Depreciation and Amortization	(7,582,100)	5,154,973
Other Assets	275,245	363,302
<i>Total Assets</i>	\$ 54,724,393	\$ 53,536,996
 <u>Liabilities:</u>		
Accounts and Other Payables	\$ 139,272	\$ 181,276
Agency Deposits	1,295,701	1,161,450
Deferred Income and Unearned Life Memberships	9,436,055	9,087,102
Other Liabilities	275,245	363,302
<i>Total Liabilities</i>	11,146,273	10,793,130
 <u>Net Assets:</u>		
Unrestricted – AOG Operating Reserve	2,780,952	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	4,649,951	5,154,973
Unrestricted-undesignated	7,385,275	5,583,113
Total Unrestricted Net Assets	26,328,001	23,376,997
Temporarily Restricted	13,083,246	15,238,337
Permanently Restricted	4,166,873	4,128,532
<i>Total Net Assets</i>	43,578,120	42,743,866
<i>Total Liabilities and Net Assets</i>	\$ 54,724,393	\$ 53,536,996

Operating Statement of Activities
 For the Fiscal Period Ended March 31, 2018
 (Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	\$ 276,996	\$ 194,390	\$ 82,606	\$ 237,691
Membership Dues	653,404	606,510	46,894	615,095
Merchandising	385,588	397,918	(12,330)	415,613
Member Services	9,290	11,245	(1,955)	14,030
Advertising and Sponsorships	439,363	457,500	(18,137)	466,215
Reunion Services	181,486	167,010	14,476	206,213
Administration Fees	36,723	35,300	1,423	33,614
Conferences	261,564	249,000	12,564	252,983
Royalties	118,364	128,650	(10,286)	126,360
Football Tickets and Tailgates	94,702	59,700	35,002	19,891
Activities and Social Events	134,777	82,370	52,407	112,794
Miscellaneous Income	43,891	44,340	(449)	44,618
Subsidy from Endowment	581,187	783,882	(202,695)	499,344
Transfers from/(to) Restricted Funds	174	(13,000)	13,174	(140)
Total Revenues	<u>3,217,509</u>	<u>3,204,815</u>	<u>12,694</u>	<u>3,044,321</u>
Operating Expenses				
Salaries and Wages	1,467,426	1,558,642	(91,216)	1,528,104
Payroll Taxes	112,939	123,912	(10,973)	115,618
Benefits	200,230	195,434	4,796	190,896
Grants from Unrestricted Funds	6,420	3,500	2,920	3,474
Direct Governance Costs	14,584	32,205	(17,621)	92,946
Professional Services	190,498	196,352	(5,854)	185,553
Professional Printing	98,815	134,400	(35,585)	207,654
Postage and Shipping	86,409	61,025	25,384	79,306
Merchandise Cost of Sales	297,869	244,689	53,180	264,521
Insurance and Bonding	26,396	26,360	36	26,078
Employee Travel and Meals	42,854	67,258	(24,404)	77,272
Social Events and Meetings	227,092	210,855	16,237	194,807
Office Supplies	17,948	20,960	(3,012)	19,130
Advertising and Corporate Promotion	76,698	82,521	(5,823)	100,083
Office Expenses	127,059	86,680	40,379	87,629
Employee Training and Education	1,930	8,792	(6,862)	17,360
Facilities Expenses	200,864	194,851	6,013	199,698
Depreciation and Amortization	434,113	454,590	(20,477)	432,336
Total Operating Expenses	<u>3,630,144</u>	<u>3,703,026</u>	<u>(72,882)</u>	<u>3,822,465</u>
OPERATING SURPLUS/(DEFICIT)	(412,635)	(498,211)	85,576	(778,144)
Other Income and Deductions				
Investment Interest & Dividends	511,579	378,412	133,167	446,510
Realized/Unrealized Gains/(Losses)	1,178,060	470,555	707,505	3,473,041
Total Other Income and Deductions	<u>1,689,639</u>	<u>848,967</u>	<u>840,672</u>	<u>3,919,551</u>
NET SURPLUS/(DEFICIT)	\$ 1,277,004	\$ 350,756	\$ 926,248	\$ 3,141,407

Operating Statement of Cash Flows

For the Fiscal Period Ended March 31,
(Unaudited)

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net surplus/(deficit) for the period	\$ 1,277,004	\$ 3,141,407
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	434,113	432,336
Unrealized (gains) losses on investments	1,020,991	(1,343,634)
Changes in operating assets and liabilities:		
Accounts receivable	35,073	30,236
Contributions receivable, net	34	-
Inventory and prepaid expenses	25,652	(85,214)
Accounts payable and accrued expenses	(86,499)	(27,756)
Construction-in-progress and other assets	106,538	(48,790)
Deferred revenue	(38,234)	(34,266)
Other liabilities	(106,538)	48,790
Net cash provided by operating activities	2,668,134	2,113,109
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(18,442,404)	(17,902,644)
Proceeds from the sale of investments	14,435,922	13,579,360
Purchases of property and equipment	(40,520)	(195,386)
Net cash used in investing activities	(4,047,002)	(4,518,670)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net cash received for long-term purposes	1,037,325	1,004,960
Net cash provided for financing activities	1,037,325	1,004,960
Net increase (decrease) in cash and cash equivalents	(341,543)	(1,400,601)
Cash and cash equivalents, beginning of year	784,168	2,055,726
Cash and cash equivalents at March 31,	\$ 442,625	\$ 655,125

Funds Held in Short-term Operating Accounts

For the Fiscal Period Ended March 31, 2018

(Unaudited)

	Actual	Percentage
Petty Cash	\$ 600	0.14%
Operating Funds in Bank	442,025	99.86%
TOTAL	\$ 442,625	100.00%

Schedule of Investments

For the Fiscal Period Ended March 31,

(Unaudited)

	2018	%	Target	Max
Short-term Investment Pool	\$ 7,440,834	15.26%	15.0%	20.0%
U. S. Equities (value and growth)	11,473,187	27.76%	30.0%	50.0%
International Equities	11,611,592	28.10%	30.0%	50.0%
Emerging Markets	1,933,542	4.68%	5.0%	10.0%
Real Estate/REITs	2,010,060	4.86%	5.0%	15.0%
Fixed Income	9,351,767	22.63%	10.0%	30.0%
Alternatives	3,038,580	7.35%	15.0%	20.0%
Master Limited Partnerships	1,910,055	4.62%	5.0%	10.0%
Investable Cash and unsold stock	671		-	10.0%
Total Long-term Investment Pool	41,329,454	100.00%	100.0%	
TOTAL	\$ 48,770,288	100.00%	100.0%	

Schedule of Capital Additions
 For the Fiscal Period Ended March 31, 2018
 (Unaudited)

	Actual	Annual Budget
<i>Paid with operating funds:</i>		
Building and Grounds	\$ -	\$ -
Landscaping	-	16,000
Office Equipment	4,141	11,500
Vehicles	-	-
Furniture & Fixtures	-	-
Computer Equipment	15,154	20,900
Sabers	-	-
Other <i>(incl. available IBM credits)</i>	(413)	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	1,500
	18,882	49,900
 <i>Paid with restricted funds:</i>		
HVAC Steam Pressure Valve	-	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	-
Water Pond Repair/Replacement	-	2,500
Tree Grove Bridge Replacement	-	2,500
A/C Chiller Pad Overhang	-	8,000
	21,638	163,000
 Total for restricted funds	 21,638	 163,000
 TOTAL	 \$ 40,520	 \$ 212,900

Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended March 31, 2018

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	\$ 448,342	\$ 450,000	\$ (1,658)	\$ 464,957
Donations and Contributions	266,622	194,390	72,232	195,613
Membership Dues	497,366	449,010	48,356	458,090
Merchandising	384,835	397,918	(13,083)	415,572
Member Services	9,290	11,245	(1,955)	14,030
Advertising and Sponsorships	401,128	457,500	(56,372)	433,949
Reunion Services	181,486	167,010	14,476	220,688
Administration Fees	36,723	35,300	1,423	33,614
Conferences	261,564	249,000	12,564	252,983
Royalties	118,364	128,650	(10,286)	126,360
Football Tickets and Tailgates	94,702	59,700	35,002	19,891
Activities and Social Events	134,052	82,370	51,682	113,778
Miscellaneous Income	43,866	44,340	(474)	44,214
Subsidy from Endowment	670,852	783,882	(113,030)	570,495
Transfers from/(to) Restricted Funds	174	(13,000)	13,174	(140)
Total Revenues	3,549,366	3,497,315	52,051	3,364,094
Operating Expenses				
Salaries and Wages	1,467,426	1,558,642	(91,216)	1,528,104
Payroll Taxes	112,939	123,912	(10,973)	115,618
Benefits	200,555	195,434	5,121	190,941
Grants from Unrestricted Funds	2,720	3,500	(780)	4,974
Direct Governance Costs	14,584	32,205	(17,621)	92,946
Professional Services	191,034	196,352	(5,318)	184,177
Professional Printing	118,924	134,400	(15,476)	207,802
Postage and Shipping	86,404	61,025	25,379	79,306
Merchandise Purchases	272,551	288,075	(15,524)	302,303
Insurance and Bonding	35,814	37,910	(2,096)	35,114
Employee Travel and Meals	42,854	67,258	(24,404)	77,272
Social Events and Meetings	238,029	210,855	27,174	182,624
Office Supplies	17,987	20,960	(2,973)	19,130
Advertising and Corporate Promotion	72,218	82,521	(10,303)	93,014
Office Expenses	132,764	86,680	46,084	92,077
Employee Training and Education	1,930	8,792	(6,862)	18,527
Facilities Expenses	228,794	194,851	33,943	241,731
Total Operating Expenses	3,237,527	3,303,372	(65,845)	3,465,660
OPERATING SURPLUS/(DEFICIT)	311,839	193,943	117,896	(101,566)
Operating Capital Purchases	18,882	37,425	(18,543)	78,739
NET SURPLUS/(DEFICIT)	\$ 292,957	\$ 156,518	\$ 136,439	\$ (180,305)



Unaudited Financial Statements
For the Fiscal Period Ended March 31, 2018

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results through the third quarter for the fiscal year ended March 31, 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 quarter compared to the previous year as reported at the time. The total assets of the organization were about \$54.72 million, an increase of approximately \$1.19 million [2.22%] from \$53.54 million at March 31 the previous year, primarily from growth of the investment portfolio. Fixed assets decreased in total by about \$505,000, reflecting the year-to-date depreciation as well as a cleanup of the database for assets no longer on hand. Liabilities of the organization increased by about \$353,100, year-over-year, showing the added deferred life memberships. Unrestricted net assets include funds that the Board has designated [\$2.78 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 [\$690,000] of the funds remaining at March 31 to support the USAFA Endowment's comprehensive campaign and other Academy aviation training needs. Total net assets increased by just over \$834,200 year-over-year, largely resulting from the net positive investment returns.

The Operating Statement of Activities shows **preliminary** operating results through the quarter with approximately \$3.218 million in operating revenues, and operating expenses of about \$3.630 million. The result is an operating deficit of about \$412,600, versus a budgeted deficit of about \$498,200. Overall, revenues slightly exceeded the year-to-date budget by about \$12,700, or 0.4%. Operating expenses were about 2.0% [about \$72,900] lower than budgeted. Compared to the previous year's operating deficit of about \$778,100 as reported, the year-to-date results improved significantly. 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; direct Board of Directors costs; professional printing expenses; employee travel costs; and, depreciation. Merchandise costs of sales reflect a book entry to reconcile the inventory on hand, and office expenses 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 postage and shipping and meeting expenses.

Investment income allocation to operations through March, on a total return basis, was approximately \$1.69 million, and shows a contraction in the general markets for February and March. 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 \$1.277 million in these preliminary statements through the third quarter of 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.
- **Membership dues** revenue shown through the quarter consisted of \$157,500 of recognized life memberships and approximately \$495,900 of new and continuing other memberships, and exceeded the budget by 7.7% through March.
- **Merchandising** sales fell off a little in the third quarter as we conducted a full inventory count and implemented the new e-commerce gift shop, resulting in revenues below the year-to-date budget by about 3.1%.
- **Advertising revenue** was short of the year-to-date budget, but was partially offset by higher **sponsorship revenue**; in total the shortage was about 4% from expectations.
- **Reunion services revenue** reflects administration fees and events for the reunions that took place. Fees from registrations and events, as well as other class activities, all 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.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conferences (SACC) and exceeded the year-to-date budget by about \$12,600.
- **Royalty income** received was below the budget through March because partnering relationships with some suppliers has 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 through the quarter far surpassed budget expectations, but included some pass-through registrations for various chapter activities that will be distributed to the

chapters by the end of April. Non-class related events like golf tournaments are also captured in the revenue.

- Year-to-date recognized **subsidy revenue** from the USAFA Endowment was well below expectations by just under \$202,700 and reflects the recognized proportionate share of contributions for Air Force Academy Fund receipts.
- The **transfer of funds** from the Heritage Initiatives and Preservation project reflects the payment for the new touch screens (fixed assets) in the Southeast Asia Pavilion, offset by a transfer to the agency account for the Class of 2020's Ring Dining out function.

Expenses

- **Salaries and wages** were about \$91,200 below budget through the third quarter, primarily due to unfilled positions.
- All elements of **payroll taxes**, including Medicare, Social Security and Colorado unemployment, were below budget expectations, and follow the lower total salaries and wages.
- Insurance **benefits** paid include the premiums for April 2018, and; therefore exceed the pro-rated budget through the quarter. Additionally, the negotiated renewal medical insurance premiums were slightly higher [13.89%] than the budgeted 10% increase.
- **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.
- The **direct governance costs** shown reflect only those expenses paid specifically for Board support; there are no longer allocated expenses captured in the reporting line. An anticipated expenditure for professional help relating to a potential special election did not occur.
- The costs for **professional services** were below the budget through March, primarily because a deposit for the class crest had not yet been made.
- **Professional printing** charges were well under the budget through the quarter largely because the Parent's handbook printing was completed and accrued in the previous fiscal year and the total printing costs for the *Checkpoints* magazine issues have been lower than expected in the budget.
- Actual expenditures for **postage and shipping** exceeded the year-to-date budget because the March *Checkpoints* shipment was paid in the month but budgeted for April.
- The **merchandise cost of sales** reflects the FIFO inventory valuation method and a significant adjustment to true up the general ledger and the inventory control system year-to-date. Calculation of the year-to-date gross margin on sales is below.

	Actuals		Budget	
Sales	\$ 385,588	100.0%	\$ 397,918	100.0%
Cost of Sales	297,869	77.3%	244,689	61.5%
Gross margin	\$ 87,719	22.7%	\$ 153,229	38.5%

- All elements of **employee travel and meals**, through this reporting, were below the year-to-date budget, largely for expected airfare, hotel expenses and meals. CEO travel has been much less than forecasted in the budget.
- Set up costs for Founders' Day events in Arnold Hall were budgeted for April but were mostly paid by the end of March, therefore, **social events and meeting expenses** exceeded the year-to-date budget by approximately 7.7%.
- **Office supplies**, primarily janitorial and kitchen supplies were below the budget through the year, and are expected to finish the year slightly under.
- **Advertising and corporate promotion** expenses through the quarter were slightly below the expected budget, across numerous activities.
- The costs captured in other **office expenses** were significantly over the year-to-date budget primarily due to software subscription costs and an unbudgeted professional membership for the career services platform. 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 3.1% higher than the year-to-date budget, mainly from 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 through the quarter.

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 February, the total fiscal year balanced portfolio, excluding the short-term account, registered a 9.52% return, and a 6.85% cumulative return from inception in October 2003, each exceeding the balanced index. Net allocated gains to operations were approximately \$1.69 million, consisting of investment interest and dividends received and reinvested of approximately \$511,600, and net realized and unrealized (market) gains of about \$1.181 million. There were also allocated advisor management charges of about \$3,300. The short-term account registered a 0.08% loss through February. For

March, about 59.8% 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 nine months of about \$341,500 from the beginning of the fiscal year, with approximately \$2.668 million provided by operations, \$4.047 million (gross) used in managing the investment portfolio and fixed assets, and a net increase of about \$1.04 million (primarily the December Moller Trust distribution) 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 \$442,600, including petty cash at March 31. Short-term investable cash held at our custodian is reflected in investments report.

Schedule of Investments

Investment sector values at March 31 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 March, except the foreign managed real estate investment trust, had been received by the preparation time for these financial statements; that asset has been in liquidation since earlier 2010.

Schedule of Capital Additions

The schedule on page 5 showed year-to-date capital purchases 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.

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 surplus of approximately \$311,800 from operating functions and about a \$293,000 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 payments received.
- **Membership dues** received and recognized included about \$56,500 in annual memberships and about \$440,900 of prep and class club, parent, and family memberships.
- **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 March.
- 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 and handling costs, represent non-inventory merchandise bought during the reporting period, as well as inventory stocking and restocking of new and longstanding items. Actual expenditures were below the prorated year-to-date purchases budget.
- The **insurance and bonding** premiums reflect lines of coverage that were renewed and paid in March.
- Year-to-date **facilities expenses** paid were significantly [about 17.4%] 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.