



## Statement of Financial Position

As of December 31,  
(Unaudited)

| <b><u>Assets</u></b>                                     | <b>2018</b>          | <b>2017</b>          |
|--|----------------------|----------------------|
| Cash and Cash Equivalents                                | \$ 1,721,412         | \$ 1,668,078         |
| Merchandise Inventory                                    | 170,678              | 216,698              |
| Pledges and Accounts Receivable                          | 1,164,904            |                      |
| Less: Discounts and Allowances for Uncollectible         | (900)                | 276,942              |
| Prepaid Expenses   | 114,905              | 95,603               |
| <i>Total Current Assets</i>                              | 3,170,999            | 2,257,321            |
| Investments  | 45,565,577           | 47,426,931           |
| Fixed Assets <i>(including Construction in Progress)</i> | 12,377,383           |                      |
| Less: Accumulated Depreciation and Amortization          | (8,017,145)          | 4,770,576            |
| Other Assets   | 130,720              | 411,969              |
| <b><i>Total Assets</i></b>                               | <b>\$ 53,227,534</b> | <b>\$ 54,866,797</b> |
| <br><b><u>Liabilities:</u></b>                           |                      |                      |
| Accounts and Other Payables                              | \$ 160,020           | \$ 139,448           |
| Agency Deposits  | 1,261,527            | 1,273,832            |
| Deferred Income and Unearned Life Memberships            | 9,758,057            | 9,496,769            |
| Other Liabilities  | 130,720              | 411,969              |
| <b><i>Total Liabilities</i></b>                          | <b>11,310,324</b>    | <b>11,322,018</b>    |
| <br><b><u>Net Assets:</u></b>                            |                      |                      |
| Unrestricted – AOG Operating Reserve                     | 2,833,622            | 2,500,000            |
| Unrestricted-designated – for Short-term Purposes        | -                    | 690,000              |
| Unrestricted-designated – for Endowments                 | 13,104,225           | 10,821,823           |
| Invested in Property and Equipment                       | 4,360,238            | 4,770,576            |
| Unrestricted-undesignated                                | 4,391,511            | 7,507,246            |
| <b>Total Unrestricted Net Assets</b>                     | <b>24,689,596</b>    | <b>26,289,645</b>    |
| Temporarily Restricted                                   | 12,743,383           | 13,191,781           |
| Permanently Restricted                                   | 4,484,231            | 4,063,353            |
| <b><i>Total Net Assets</i></b>                           | <b>41,917,210</b>    | <b>42,544,779</b>    |
| <b><i>Total Liabilities and Net Assets</i></b>           | <b>\$ 53,227,534</b> | <b>\$ 54,866,797</b> |

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

|                                      | YTD Actual                   | YTD Budget                 | Variance                     | PY YTD                     |
|--------------------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
| <b>Revenues</b>                      |                              |                            |                              |                            |
| Donations and Contributions          | \$ 7,603                     | 11,118                     | \$ (3,515)                   | \$ 97,284                  |
| Membership Dues                      | 468,792                      | 449,158                    | 19,634                       | 442,901                    |
| Merchandising                        | 307,570                      | 352,352                    | (44,782)                     | 327,764                    |
| Member Services                      | 9,630                        | 6,340                      | 3,290                        | 6,340                      |
| Advertising and Sponsorships         | 336,995                      | 335,962                    | 1,033                        | 368,058                    |
| Reunion Services                     | 309,131                      | 323,995                    | (14,864)                     | 181,486                    |
| Administration Fees                  | -                            | 35,650                     | (35,650)                     | -                          |
| Conferences                          | 207,575                      | 190,000                    | 17,575                       | 189,138                    |
| Royalties                            | 126,960                      | 111,550                    | 15,410                       | 115,441                    |
| Football Tickets and Tailgates       | 172,679                      | 129,463                    | 43,216                       | 94,702                     |
| Activities and Social Events         | 6,401                        | 38,006                     | (31,605)                     | 56,336                     |
| Miscellaneous Income                 | 13,918                       | 3,872                      | 10,046                       | 16,192                     |
| Grant from USAFA Endowment           | 800,000                      | 400,000                    | 400,000                      | 242,672                    |
| Transfers from/(to) Restricted Funds | -                            | -                          | -                            | 15,122                     |
| Total Revenues                       | <u>2,767,254</u>             | <u>2,387,466</u>           | <u>379,788</u>               | <u>2,153,436</u>           |
| <b>Operating Expenses</b>            |                              |                            |                              |                            |
| Salaries and Wages                   | 1,028,800                    | 1,025,513                  | 3,287                        | 1,012,874                  |
| Payroll Taxes                        | 75,576                       | 81,528                     | (5,952)                      | 75,928                     |
| Benefits                             | 131,717                      | 143,381                    | (11,664)                     | 134,549                    |
| Grants from Unrestricted Funds       | 7,729                        | 3,700                      | 4,029                        | 6,420                      |
| Board Governance Costs               | 9,843                        | 29,503                     | (19,660)                     | 11,003                     |
| Professional Services                | 155,445                      | 154,135                    | 1,310                        | 123,256                    |
| Professional Printing                | 77,969                       | 76,061                     | 1,908                        | 51,418                     |
| Postage and Shipping                 | 76,604                       | 56,846                     | 19,758                       | 57,826                     |
| Merchandise Cost of Sales            | 181,031                      | 218,364                    | (37,333)                     | 179,996                    |
| Insurance and Bonding                | 18,786                       | 17,772                     | 1,014                        | 17,557                     |
| Employee Travel and Meals            | 28,233                       | 35,375                     | (7,142)                      | 32,545                     |
| Social Events and Meetings           | 305,956                      | 248,653                    | 57,303                       | 193,732                    |
| Office Supplies                      | 23,368                       | 26,913                     | (3,545)                      | 13,042                     |
| Advertising and Corporate Promotion  | 70,820                       | 62,670                     | 8,150                        | 68,085                     |
| Office Expenses                      | 94,622                       | 115,323                    | (20,701)                     | 84,599                     |
| Employee Training and Education      | 1,098                        | 6,337                      | (5,239)                      | 1,163                      |
| Facilities Expenses                  | 133,756                      | 142,487                    | (8,731)                      | 139,448                    |
| Depreciation and Amortization        | 288,247                      | 297,600                    | (9,353)                      | 289,258                    |
| Total Operating Expenses             | <u>2,709,600</u>             | <u>2,742,161</u>           | <u>(32,561)</u>              | <u>2,492,699</u>           |
| <b>OPERATING SURPLUS/(DEFICIT)</b>   | <b>57,654</b>                | <b>(354,695)</b>           | <b>412,349</b>               | <b>(339,263)</b>           |
| <b>Other Income and Deductions</b>   |                              |                            |                              |                            |
| Investment Interest & Dividends      | 477,133                      | 274,733                    | 202,400                      | 200,223                    |
| Realized/Unrealized Gains/(Losses)   | (2,304,378)                  | 1,341,428                  | (3,645,806)                  | 1,419,783                  |
| Total Other Income and Deductions    | <u>(1,827,245)</u>           | <u>1,616,161</u>           | <u>(3,443,406)</u>           | <u>1,620,006</u>           |
| <b>NET SURPLUS/(DEFICIT)</b>         | <b><u>\$ (1,769,591)</u></b> | <b><u>\$ 1,261,466</u></b> | <b><u>\$ (3,031,057)</u></b> | <b><u>\$ 1,280,743</u></b> |

## Operating Statement of Cash Flows

For the Fiscal Period Ended December 31,  
(Unaudited)

|  | 2018           | 2017         |
|--|----------------|--------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                       |                |              |
| Net surplus/(deficit) for the period   | \$ (1,769,591) | \$ 1,280,743 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: |                |              |
| Non-cash (income) expenses:  |                |              |
| Depreciation   | 288,247        | 289,258      |
| Unrealized (gains) losses on investments   | 5,068,771      | (2,254,168)  |
| Changes in operating assets and liabilities:   |                |              |
| Accounts receivable  | 18,263         | 86,699       |
| Contributions receivable, net  | (400,000)      | -            |
| Inventory and prepaid expenses   | (35,124)       | (37,547)     |
| Accounts payable and accrued expenses  | (57,120)       | (87,085)     |
| Construction-in-progress and other assets  | 147,429        | (30,187)     |
| Deferred revenue   | (184,439)      | (30,021)     |
| Other liabilities  | (147,429)      | 30,187       |
| Net cash provided by (used in) operating activities                                      | 2,929,007      | (752,121)    |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                       |                |              |
| Purchases of investments   | (3,465,369)    | (1,894,045)  |
| Proceeds from the sale of investments  | 3,174,358      | 2,506,078    |
| Purchases of property and equipment  | (11,588)       | (16,289)     |
| Net cash (used in) provided by investing activities                                      | (302,599)      | 595,744      |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>                                       |                |              |
| Net cash (expended)/collected for long-term purposes                                     | (1,426,132)    | 1,040,287    |
| Net cash (expended) provided for financing activities                                    | (1,426,132)    | 1,040,287    |
| Net increase in cash and cash equivalents  | 1,200,276      | 883,910      |
| Cash and cash equivalents, beginning of year   | 521,136        | 784,168      |
| Cash and cash equivalents at December 31,  | \$ 1,721,412   | \$ 1,668,078 |

**Funds Held in Short-term Operating Accounts**

For the Fiscal Period Ended December 31, 2018

(Unaudited)

|                         | <u>Actual</u>             | <u>Percentage</u>     |
|-------------------------|---------------------------|-----------------------|
| Petty Cash              | \$ 600                    | 0.03%                 |
| Operating Funds in Bank | 1,720,812                 | 99.97%                |
| <b>TOTAL</b>            | <u><u>\$1,721,412</u></u> | <u><u>100.00%</u></u> |

**Schedule of Investments**

For the Fiscal Period Ended December 31,

(Unaudited)

|                                   | <u>2018</u>                 | <u>%</u>              | <u>Target</u>        | <u>Max</u> |
|-----------------------------------|-----------------------------|-----------------------|----------------------|------------|
| Short-term Investment Pool        | \$ 6,542,385                | 14.36%                | 15.0%                | 20.0%      |
| U. S. Equities (value and growth) | 10,894,140                  | 27.92%                | 30.0%                | 50.0%      |
| International Equities            | 10,129,504                  | 25.96%                | 30.0%                | 50.0%      |
| Emerging Markets                  | 1,784,600                   | 4.57%                 | 5.0%                 | 10.0%      |
| Real Estate/REITs                 | 2,005,146                   | 5.14%                 | 5.0%                 | 15.0%      |
| Fixed Income                      | 6,690,227                   | 17.14%                | 10.0%                | 20.0%      |
| Alternatives                      | 2,888,991                   | 7.40%                 | 15.0%                | 20.0%      |
| Master Limited Partnerships       | 1,796,939                   | 4.61%                 | 5.0%                 | 10.0%      |
| AOG Reserve Fund                  | 2,833,622                   | 7.26%                 | -                    | -          |
| Investable Cash and unsold stock  | 23                          | -                     | -                    | 10.0%      |
| Total Long-term Investment Pool   | <u>39,023,192</u>           | <u>100.00%</u>        | <u>100.0%</u>        |            |
| <b>TOTAL</b>                      | <u><u>\$ 45,565,577</u></u> | <u><u>100.00%</u></u> | <u><u>100.0%</u></u> |            |

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

|  | <b>Actual</b>    | <b>Annual Budget</b> |
|--|------------------|----------------------|
| <i>Paid with operating funds:</i>          |                  |                      |
| Building and Grounds                       | \$ -             | \$ -                 |
| Landscaping                                | 3,375            | 24,000               |
| Office Equipment                           | 2,196            | -                    |
| Vehicles                                   | -                | -                    |
| Furniture & Fixtures                       | 727              | 2,300                |
| Computer Equipment                         | 5,290            | 65,000               |
| Sabers                                     | -                | -                    |
| Other <i>(incl. available IBM credits)</i> | -                | -                    |
| Capitalized Lease-Furniture                | -                | -                    |
| Capitalized Software Costs                 | -                | -                    |
|  | <b>11,588</b>    | <b>91,300</b>        |
| <i>Paid with restricted funds:</i>         |                  |                      |
| Hot Water Tank System                      | -                | 65,000               |
| Maintenance Vehicle/Plow Truck             | -                | 40,000               |
| Re-glaze Office Windows (6 ea.)            | -                | 12,000               |
| Bathroom Countertops/Faucets               | -                | 22,360               |
| Security Door Locks Replacement            | -                | 4,000                |
| Front Entry Door Hardware Replacement      | -                | 2,500                |
| Office Area Carpet Replacement             | -                | 99,900               |
|  | -                | <b>245,760</b>       |
| <b>TOTAL</b>                               | <b>\$ 11,588</b> | <b>\$ 337,060</b>    |

## Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended December 31, 2018

(Unaudited)

|                                      | YTD Actual        | YTD Budget        | Variance          | PY YTD            |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenues</b>                      |                   |                   |                   |                   |
| Investment Income and Distributions  | \$ 750,980        | \$ 350,247        | \$ 400,733        | \$ 448,221        |
| Donations and Contributions          | 7,371             | 6,218             | 1,153             | 96,167            |
| Membership Dues                      | 355,432           | 330,809           | 24,623            | 338,579           |
| Merchandising                        | 307,570           | 352,352           | (44,782)          | 327,014           |
| Member Services                      | 9,630             | 6,340             | 3,290             | 6,340             |
| Advertising and Sponsorships         | 307,203           | 335,962           | (28,759)          | 338,037           |
| Reunion Services                     | 220,219           | 323,995           | (103,776)         | 181,486           |
| Administration Fees                  | -                 | 35,650            | (35,650)          | -                 |
| Conferences                          | 207,575           | 190,000           | 17,575            | 189,138           |
| Royalties                            | 126,960           | 111,550           | 15,410            | 115,441           |
| Football Tickets and Tailgates       | 116,666           | 129,463           | (12,797)          | 94,702            |
| Activities and Social Events         | 4,476             | 38,006            | (33,530)          | 55,611            |
| Miscellaneous Income                 | 4,262             | 3,872             | 390               | 16,187            |
| Grant from USAFA Endowment           | 400,000           | 400,000           | -                 | 332,337           |
| Transfers from/(to) Restricted Funds | -                 | -                 | -                 | 15,122            |
| <b>Total Revenues</b>                | <b>2,818,344</b>  | <b>2,614,464</b>  | <b>203,880</b>    | <b>2,554,382</b>  |
| <b>Operating Expenses</b>            |                   |                   |                   |                   |
| Salaries and Wages                   | 1,028,800         | 1,025,513         | 3,287             | 1,012,874         |
| Payroll Taxes                        | 75,576            | 81,528            | (5,952)           | 75,928            |
| Benefits                             | 131,717           | 143,381           | (11,664)          | 134,874           |
| Grants from Unrestricted Funds       | 4,404             | 3,700             | 704               | 2,720             |
| Board Governance Costs               | 9,843             | 29,503            | (19,660)          | 11,003            |
| Professional Services                | 159,194           | 154,135           | 5,059             | 122,406           |
| Professional Printing                | 77,969            | 76,061            | 1,908             | 71,527            |
| Postage and Shipping                 | 76,604            | 56,846            | 19,758            | 57,820            |
| Merchandise Purchases                | 216,543           | 189,606           | 26,937            | 232,633           |
| Insurance and Bonding                | 880               | -                 | 880               | -                 |
| Employee Travel and Meals            | 27,894            | 35,375            | (7,481)           | 32,545            |
| Social Events and Meetings           | 323,434           | 248,653           | 74,781            | 203,181           |
| Office Supplies                      | 23,600            | 26,913            | (3,313)           | 13,042            |
| Advertising and Corporate Promotion  | 71,211            | 62,670            | 8,541             | 65,056            |
| Office Expenses                      | 96,323            | 115,323           | (19,000)          | 80,261            |
| Employee Training and Education      | 1,098             | 6,337             | (5,239)           | 1,163             |
| Facilities Expenses                  | 178,812           | 142,487           | 36,325            | 181,138           |
| <b>Total Operating Expenses</b>      | <b>2,503,902</b>  | <b>2,398,031</b>  | <b>105,871</b>    | <b>2,298,171</b>  |
| <b>OPERATING SURPLUS/(DEFICIT)</b>   | <b>314,442</b>    | <b>216,433</b>    | <b>98,009</b>     | <b>256,211</b>    |
| Operating Capital Purchases          | 11,588            | 45,650            | (34,062)          | 13,841            |
| <b>NET SURPLUS/(DEFICIT)</b>         | <b>\$ 302,854</b> | <b>\$ 170,783</b> | <b>\$ 132,071</b> | <b>\$ 242,370</b> |



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

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results for the half of the fiscal year ended December 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 \$53.28 million, a decrease of approximately \$1.64 million [2.99%] from \$54.87 million at December 31 the previous year, primarily from market losses in the investment portfolio. Fixed assets decreased by about \$410,300 primarily from depreciation of those assets. Liabilities of the organization decreased by about \$11,700 net year-over-year, with increases in deferred memberships offset by a payout of deferred compensation. Total unrestricted net assets reflect: funds that the Board has designated [about \$2.83 million] as the operating reserve; designated funds to support restricted purposes, where the Board has discretion to modify the support in the future; the value of fixed asset owned; as well as the balance of the funds supporting operations. Total net assets increased by just under \$627,600 year-over-year, again, largely resulting from the investment losses through the quarter.

The Operating Statement of Activities shows **preliminary** operating results through the second quarter with approximately \$2.767 million in operating revenues, and operating expenses of about \$2.71 million. The result is an operating surplus of about \$57,700, versus a budgeted deficit of about \$354,700. Overall, revenues exceeded the year-to-date budget by about \$379,800, or 15.91%. Operating expenses were about 1.19% lower [about \$32,600] than anticipated for in the budget. These second quarter results improved significantly, by about \$396,900 compared to the previous year's operating deficit of about \$339,300. While there were plus and minus budget variances in all of the cost elements, reductions of note include: employee benefits; board governance costs; the cost of merchandise sold; employee travel costs; office expenses; and, facilities expenses. Those were offset by overages in meeting expenses, and advertising and corporate promotion expenses, which are discussed below.

Investment results allocation to operations through December 31, on a total return basis, was a loss of approximately \$1.827 million, well below expectations. 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 deficit of approximately \$1.77 million in these preliminary statements through the second quarter of the fiscal year.

### Revenues

- **Donations and contributions** reflect new direct gifts from donors, recognized gifts-in-kind, such as the Prep School bed-n-breakfast program, but resulted in a negative variance to the expected year-to-date budget.
- **Membership dues** revenue shown through the first quarter consisted of \$114,000 of recognized life memberships and approximately \$354,800 of new and continuing other memberships, the total of which exceeded the budget by 4.37%.
- **Merchandising** sales through the first half of the year were about 12.7% below the year-to-date budget expectations and were primarily impacted by the CEO's decision to change the pick-up and drop-off location for reunion attendees to the Fieldhouse area rather than Doolittle Hall, making it much more convenient for returning grads.
- **Advertising and sponsorship revenue** year-to-date was right in line with the fiscal year budget through the quarter.
- **Reunion services revenue** reflects administration fees for AOG services for the reunions that occurred. Fees recognized reflect the new tiered approach to services offered to classes, and were approximately 4.6% below budget 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, but are not yet reflected in these preliminary statements.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conferences (SACC) and exceeded expectations through December by about 9.2%.
- The **royalty income** received far exceeded the budget, primarily due to unanticipated royalties from WWII travel programs.
- Year-to-date **tailgate registration income** exceeded budgeted expectations based on tailgate combo registration packages for reunion attendees, though we reduced registration pricing for away games in order to increase participation resulting in lower than anticipated income.
- **Activities and social events revenue** for fee-based special events through the second quarter were below the expected results, and were impacted by pass-through payouts to chapters and affinity groups such as the Rugby 50 Year reunion for individual activities. Additional efforts are being taken to increase rental of Doolittle Hall through the remainder of the fiscal year to try to offset the budget deficit.



- **Miscellaneous income** includes an unexpected purchase of a memorial cabinet from the AOG by the Class of 2007 to honor a lost classmate, and unbudgeted service fees from the online registration system.
- The **grant revenue from the USAFA Endowment** reflects the required accrued receivable for the 2019 calendar year as agreed to in the recent Memorandum of Understanding. Each monthly receipt reduces the receivable.

Expenses

- **Salaries and wages**, including bonuses paid, were slightly above the expected costs in the budget through December.
- All elements of **payroll taxes**, including Medicare, Social Security and Colorado unemployment, were below budget expectations through the quarter.
- **Benefits** paid include the insurance premiums for January 2019, but are still below the year-to-date budget. Overall, the 7.04% increase in the negotiated renewal medical insurance premiums was well below the budgeted 20% increase.
- **Grants from unrestricted funds** included non-cash gifts-in-kind of Bed-and-Breakfast appointees for the Prep School, use of Doolittle Hall for the parents' club briefing, and two red-oak memorial cabinets.
- The costs for **professional services** were right about in line with expectations through the quarter.
- **Professional printing** charges were about in line with the budget for the year.
- **Postage and shipping** expenses are significantly higher than the year-to-date budget because the expenses to ship merchandise to customers has been reclassified from cost of sales. Future budgets will account for the past error.
- The **merchandise cost of sales** reflects the FIFO inventory valuation method and adjustment to true up the general ledger and the inventory control system year-to-date.

|               | Actuals    |        | Budget     |        |
|---------------|------------|--------|------------|--------|
| Sales         | \$ 307,570 | 100.0% | \$ 352,352 | 100.0% |
| Cost of Sales | 181,031    | 58.9%  | 218,364    | 62.0%  |
| Gross margin  | \$ 126,539 | 41.1%  | \$ 133,988 | 38.0%  |

- **Insurance and bonding** expenses include new liability and physical damage coverage for the camera drone, flights of which have been approved by the Academy. The coverage wasn't anticipated in the budget when developed.
- Almost every element of **employee travel and meals** through the quarter were well below the budget, largely for expected airfare and hotel costs.
- **Social events and meeting expenses** include the cost of reunion football tickets that the AOG was able to purchase through the AFAAC at discounted prices for attendees; the expenditures were not anticipated when the budget was developed, therefore, there was an overage to the budget through December.

- **Office supplies**, including janitorial and kitchen supplies were about 13% below the approved budget through the quarter.
- **Advertising and corporate promotion** expenses through December included the renewal fee for the IMG advertising and promotion contract, sponsor support for the Class of 1970 Hood-to-Coast relay, and the AOG portion for the Falcon Stadium box shared with the USAFA Endowment. Total expenses will be partially offset by reimbursement from the Endowment for a portion of the IMG contract.
- The costs captured in other **office expenses**, including items such as professional memberships, subscriptions and publications, and credit card fees, were approximately 18% under budget through the second quarter, primarily for software subscriptions.
- The **employee training and education** expenditures were well below the budget expectation, primarily because no staff was able to attend the annual Blackbaud conference.
- **Facilities expenses** were below the year-to-date budget, primarily because utilities invoices for several months still had not been received from DFAS for USAFA-provided services.
- **Depreciation and amortization** costs were slightly below the expected budget through the quarter because anticipated capital purchases had not occurred.

#### Investment Income

Performance reporting was not yet available as of this report date. However, net allocated investment losses to operations year-to-date were approximately \$1,827,200, consisting of: investment interest and dividends received and reinvested of approximately \$477,100; net realized gains and Madoff Victims Fund recoveries, together totaling about \$741,200; and, unrealized (market) losses of about \$3.043 million. There were also allocated advisor management fees of about \$2,600. For December about 60.25% 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 increase in cash and cash equivalent funds for the six months of about \$1,200,300 from the beginning of the fiscal year, with approximately \$2.929 million provided by operations, \$302,600 used for growing the investment portfolio and purchasing fixed assets, and a net expenditure of about \$1.426 million 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 \$1,721,400 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 at December 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. All of the portfolio securities values through the second quarter, 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 capital purchases through the quarter 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 – other than the Doolittle Hall building endowment – 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 \$314,400 from operating functions and about a \$302,900 net surplus after operating capital purchases. Important variances to GAAP-basis reporting are included below.

#### Revenues

- **Investment income and distributions** reflected several transfers of operating funds from the investment portfolio and the operating account bank interest received.
- Total **donations and contributions** recognized were all one-time gifts received from various donors. There were no outstanding pledge payments received.
- **Membership dues** received and recognized included about \$38,600 in annual memberships and about \$316,800 of Husky and class club, parent, and family memberships.
- The **grant from the USAFA Endowment** reflected even monthly grant payments received by the AOG for operating support through December. The grant is not connected with Air Force Academy Fund, as a subsidy was in past years.
- 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 exceeded the prorated year-to-date budget by about 14.2% in preparation for the heavy fall sports activities.

- The **insurance and bonding** premiums reflects the new coverage line for drone liability and physical damage. All other lines of coverage are renewed and paid in March, and will be shown later in the fiscal year.
- Year-to-date **facilities expenses** paid were significantly above [about 26%] the GAAP-basis expenses primarily because the annual maintenance fees for Blackbaud products (Raisers Edge, Financial Edge, Net Community) NXT versions was paid during the second quarter. The annual fees 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.