

Statement of Financial Position

As of September 30,
(Unaudited)

<u>Assets</u>	2018	2017
Cash and Cash Equivalents	\$ 490,759	\$ 656,444
Merchandise Inventory	174,798	199,619
Pledges and Accounts Receivable	514,097	
Less: Discounts and Allowances for Uncollectible	(16,144)	296,568
Prepaid Expenses	59,494	44,251
<i>Total Current Assets</i>	1,223,004	1,196,882
Investments	51,210,137	47,562,088
Fixed Assets <i>(including Construction in Progress)</i>	12,369,211	
Less: Accumulated Depreciation and Amortization	(7,874,671)	4,904,896
Other Assets	284,536	396,849
Total Assets	\$ 57,212,217	\$ 54,060,715
<u>Liabilities:</u>		
Accounts and Other Payables	\$ 161,538	\$ 142,274
Agency Deposits	1,720,372	1,643,329
Deferred Income and Unearned Life Memberships	9,826,808	9,561,064
Other Liabilities	284,536	396,849
<i>Total Liabilities</i>	11,993,254	11,743,516
<u>Net Assets:</u>		
Unrestricted – AOG Operating Reserve	2,795,961	2,000,000
Unrestricted-designated – for Short-term Purposes	-	1,190,000
Unrestricted-designated – for Endowments	13,104,225	10,821,823
Invested in Property and Equipment	4,494,540	4,904,896
Unrestricted-undesignated	6,780,040	7,721,943
Total Unrestricted Net Assets	27,174,766	26,638,662
Temporarily Restricted	13,644,820	11,627,684
Permanently Restricted	4,399,377	4,050,853
<i>Total Net Assets</i>	45,218,963	42,317,199
Total Liabilities and Net Assets	\$ 57,212,217	\$ 54,060,715

Operating Statement of Activities
 For the Fiscal Period Ended September 30, 2018
 (Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	\$ 4,234	6,275	\$ (2,041)	\$ 24,871
Membership Dues	243,163	230,060	13,103	228,738
Merchandising	127,951	171,084	(43,133)	159,019
Member Services	4,160	2,960	1,200	2,960
Advertising and Sponsorships	288,672	282,700	5,972	319,550
Reunion Services	230,846	238,995	(8,149)	74,802
Administration Fees	-	-	-	-
Conferences	140,336	130,000	10,336	132,496
Royalties	106,978	108,300	(1,322)	105,860
Football Tickets and Tailgates	167,353	88,043	79,310	78,823
Activities and Social Events	33,820	23,747	10,073	37,103
Miscellaneous Income	3,772	1,747	2,025	5,442
Grant from USAFA Endowment	-	200,000	(200,000)	77,478
Transfers from/(to) Restricted Funds	-	-	-	12,674
Total Revenues	1,351,285	1,483,911	(132,626)	1,256,816
Operating Expenses				
Salaries and Wages	489,656	504,756	(15,100)	462,758
Payroll Taxes	37,531	40,128	(2,597)	34,461
Benefits	72,134	71,691	443	68,940
Grants from Unrestricted Funds	3,325	3,700	(375)	5,725
Board Governance Costs	4,384	5,027	(643)	26,763
Professional Services	71,522	70,631	891	51,289
Professional Printing	11,589	25,396	(13,807)	5,689
Postage and Shipping	37,067	28,924	8,143	29,423
Merchandise Cost of Sales	72,172	105,995	(33,823)	117,283
Insurance and Bonding	8,953	8,886	67	8,779
Employee Travel and Meals	9,184	16,385	(7,201)	13,546
Social Events and Meetings	65,683	129,116	(63,433)	70,937
Office Supplies	17,000	20,844	(3,844)	5,912
Advertising and Corporate Promotion	62,910	6,172	56,738	7,078
Office Expenses	50,915	49,419	1,496	29,928
Employee Training and Education	208	2,890	(2,682)	1,105
Facilities Expenses	63,101	72,936	(9,835)	84,197
Depreciation and Amortization	145,773	148,800	(3,027)	144,468
Total Operating Expenses	1,223,107	1,311,696	(88,589)	1,168,281
OPERATING SURPLUS/(DEFICIT)	128,178	172,215	(44,037)	88,535
Other Income and Deductions				
Investment Interest & Dividends	172,296	135,870	36,426	135,869
Realized/Unrealized Gains/(Losses)	376,695	887,625	(510,930)	937,625
Total Other Income and Deductions	548,991	1,023,495	(474,504)	1,073,494
NET SURPLUS/(DEFICIT)	\$ 677,169	\$ 1,195,710	\$ (518,541)	\$ 1,162,029

Operating Statement of Cash Flows

For the Fiscal Period Ended September 30,
(Unaudited)

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net surplus/(deficit) for the period	\$ 677,169	\$ 1,162,029
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	145,773	144,468
Unrealized (gains) losses on investments	(627,545)	(1,580,469)
Changes in operating assets and liabilities:		
Accounts receivable	14,767	69,150
Contributions receivable, net	200,000	(25)
Inventory and prepaid expenses	20,151	35,329
Accounts payable and accrued expenses	(56,365)	(85,022)
Construction-in-progress and other assets	(6,388)	(15,067)
Deferred revenue	(172,688)	(18,225)
Other liabilities	6,388	15,067
Net cash provided by (used in) operating activities	201,262	(272,765)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(1,109,256)	(1,133,374)
Proceeds from the sale of investments	870,000	935,203
Purchases of property and equipment	(3,415)	(4,564)
Net cash used in investing activities	(242,671)	(202,735)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net cash (expended)/collected for long-term purposes	11,032	347,776
Net cash provided for financing activities	11,032	347,776
Net decrease in cash and cash equivalents	(30,377)	(127,724)
Cash and cash equivalents, beginning of year	521,136	784,168
Cash and cash equivalents at September 30,	\$ 490,759	\$ 656,444

Funds Held in Short-term Operating Accounts

For the Fiscal Period Ended September 30, 2018

(Unaudited)

	<u>Actual</u>	<u>Percentage</u>
Petty Cash	\$ 1,050	0.21%
Operating Funds in Bank	489,709	99.79%
TOTAL	<u>\$ 490,759</u>	<u>100.00%</u>

Schedule of Investments

For the Fiscal Period Ended September 30,

(Unaudited)

	<u>2018</u>	<u>%</u>	<u>Target</u>	<u>Max</u>
Short-term Investment Pool	\$ 7,350,335	14.35%	15.0%	20.0%
U. S. Equities (value and growth)	12,780,983	29.14%	30.0%	50.0%
International Equities	11,855,725	27.03%	30.0%	50.0%
Emerging Markets	1,954,141	4.46%	5.0%	10.0%
Real Estate/REITs	2,137,228	4.87%	5.0%	15.0%
Fixed Income	6,595,622	15.04%	10.0%	20.0%
Alternatives	2,998,821	6.84%	15.0%	20.0%
Master Limited Partnerships	2,136,537	4.87%	5.0%	10.0%
AOG Reserve Fund	2,812,327	6.41%	-	-
Investable Cash and unsold stock	588,418	1.34%	-	10.0%
Total Long-term Investment Pool	43,859,802	100.00%	100.0%	
TOTAL	<u>\$ 51,210,137</u>	<u>100.00%</u>	<u>100.0%</u>	

Schedule of Capital Additions
 For the Fiscal Period Ended September 30, 2018
 (Unaudited)

	Actual	Annual Budget
<i>Paid with operating funds:</i>		
Building and Grounds	\$ -	\$ -
Landscaping	-	24,000
Office Equipment	-	-
Vehicles	-	-
Furniture & Fixtures	-	2,300
Computer Equipment	3,415	65,000
Sabers	-	-
Other <i>(incl. available IBM credits)</i>	-	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	-
	3,415	91,300
 <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
	-	245,760
 TOTAL	\$ 3,415	\$ 337,060

Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended September 30, 2018

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	\$ 104	\$ 155	\$ (51)	\$ 154
Donations and Contributions	2,929	2,575	354	21,352
Membership Dues	186,487	165,405	21,082	176,274
Merchandising	127,951	171,084	(43,133)	158,270
Member Services	4,160	2,960	1,200	2,960
Advertising and Sponsorships	270,030	282,700	(12,670)	298,325
Reunion Services	156,780	238,995	(82,215)	74,802
Administration Fees	-	-	-	-
Conferences	140,336	130,000	10,336	132,496
Royalties	106,978	108,300	(1,322)	105,860
Football Tickets and Tailgates	111,340	88,043	23,297	78,823
Activities and Social Events	32,495	23,747	8,748	36,378
Miscellaneous Income	3,772	1,747	2,025	5,442
Grant from USAFA Endowment	200,000	200,000	-	167,143
Transfers from/(to) Restricted Funds	-	-	-	12,674
Total Revenues	1,343,362	1,415,711	(72,349)	1,270,953
Operating Expenses				
Salaries and Wages	489,656	504,756	(15,100)	462,758
Payroll Taxes	37,531	40,128	(2,597)	34,461
Benefits	72,134	71,691	443	69,265
Grants from Unrestricted Funds	-	3,700	(3,700)	2,025
Board Governance Costs	4,384	5,027	(643)	26,763
Professional Services	74,009	70,631	3,378	50,864
Professional Printing	11,589	25,396	(13,807)	25,798
Postage and Shipping	37,067	28,924	8,143	29,423
Merchandise Purchases	111,802	94,803	16,999	151,072
Insurance and Bonding	-	-	-	-
Employee Travel and Meals	8,845	16,385	(7,540)	13,546
Social Events and Meetings	83,161	129,116	(45,955)	80,386
Office Supplies	17,232	20,844	(3,612)	5,912
Advertising and Corporate Promotion	63,999	6,172	57,827	5,709
Office Expenses	52,145	49,419	2,726	28,650
Employee Training and Education	208	2,890	(2,682)	1,105
Facilities Expenses	45,277	72,936	(27,659)	63,168
Total Operating Expenses	1,109,039	1,142,818	(33,779)	1,050,905
OPERATING SURPLUS/(DEFICIT)	234,323	272,893	(38,570)	220,048
Operating Capital Purchases	3,415	22,825	(19,410)	4,564
NET SURPLUS/(DEFICIT)	\$ 230,908	\$ 250,068	\$ (19,160)	\$ 215,484



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

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results for the first quarter of the fiscal year ended September 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 quarter compared to the previous year as reported at the time. The total assets of the organization were about \$57.21 million, an increase of approximately \$3.15 million [5.83%] from \$54.06 million at September 30 the previous year, primarily from the growth of the investment portfolio. Fixed assets decreased by about \$410,400 primarily from depreciation of those assets. Liabilities of the organization (largely the unearned life membership funds) increased by about \$249,700 year-over-year. Total unrestricted net assets reflect: funds that the Board has designated [about \$2.8 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 \$2.902 million year-over-year, again, largely resulting from the investment returns through the first quarter.

The Operating Statement of Activities shows **preliminary** operating results through the first quarter with approximately \$1.351 million in operating revenues, and operating expenses of about \$1.223 million. The result is an operating surplus of about \$128,200, versus a budgeted surplus of about \$172,200. Overall, revenues fell short of the year-to-date budget by about \$132,600, or 8.94%. Operating expenses were about 6.8% lower [about \$88,600] than anticipated for in the budget. These first quarter results improved by about \$39,600 compared to the previous year's operating surplus of about \$88,500. While there were plus and minus budget variances in all of the cost elements, reductions of note include: salaries and wages; professional printing services; the cost of merchandise sold; employee travel costs; meeting expenses; and, facilities expenses. Those were offset by overages in postage and shipping charges, and advertising and corporate promotion expenses, and are discussed below.

Investment income allocation to operations through September 30, on a total return basis, was approximately \$549,000, 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 surplus of approximately \$677,200 in these preliminary statements through the first 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 \$57,000 of recognized life memberships and approximately \$186,200 of new and continuing other memberships, and exceeded the budget by 5.7%.
- **Merchandising** sales were about 25% 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** slightly exceeded the first quarter budget of the fiscal year [2.1%], primarily from concerted efforts to add new advertisers in our media publications.
- **Reunion services revenue** reflects administration fees for AOG services for the reunions that took place through September. Fees recognized reflect the new tiered approach to services offered to classes, and were approximately 3.4% below budget expectations based on two of the three reunion weekends taking place in October, as opposed to the typical two in September.
- **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 expectations for the first quarter by almost 8%.
- The **royalty income** received was slightly under budget expectations through September.
- The first quarter **tailgate registration income** far exceeded expectations, including attendance for the Florida Atlantic University non-conference game, the Navy reunion tailgate, and registrations for the upcoming Army Falcon's Nest activities.
- **Activities and social events revenue** for fee-based special events through September 30 were well above the expected results, but will be impacted by expected pass-through payouts to chapters and affinity groups such as the Rugby 50 Year reunion for individual activities. Additional efforts will be undertaken to enhance rental of Doolittle Hall through the remainder of the fiscal year to try to offset the adjustment.

- **Miscellaneous income** includes an unexpected purchase of a memorial cabinet from the AOG by the Class of 2007 to honor a lost classmate.
- The **grant revenue from the USAFA Endowment** was required to be accrued as a receivable in the 2018 fiscal year audit for the balance of the in-place Memorandum of Understanding for July through December 2018. It is therefore not reflected as new revenue in the current fiscal year, but each monthly receipt reduces the receivable.

Expenses

- **Salaries and wages** were \$15,100 below the expected costs in the budget through September, primarily due to open positions.
- All elements of **payroll taxes**, including Medicare, Social Security and Colorado unemployment, were below budget expectations for the quarter.
- Insurance **benefits** paid include the renewal premiums for October; therefore they exceed the pro-rated budget for the first quarter. 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 and use of Doolittle Hall for the parents' club briefing.
- The costs for **professional services** were right about in line with expectations through September.
- **Professional printing** charges were well under the budget for the quarter because printing of badges and brochures for the September reunion were much less than anticipated.
- Actual expenditures for **postage and shipping** were about 28% over budget expectations through September 30, primarily for *Checkpoints* delivery and membership correspondence.
- 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	\$ 127,951	100.0%	\$ 171,084	100.0%
Cost of Sales	72,172	56.4%	105,995	62.0%
Gross margin	\$ 55,779	43.6%	\$ 65,089	38.0%

- Almost every element of **employee travel and meals** through the quarter were well below the budget, largely for expected airfare and hotel costs.
- Fiscal quarter **social events and meeting expenses**, especially expected catering service costs for reunions, were significantly below the budget through the quarter.
- **Office supplies**, including janitorial and kitchen supplies were about 18% below the approved budget through the quarter, primarily reunion support.

- **Advertising and corporate promotion** expenses through September included the renewal fee for the IMG advertising and promotion contract, which has been budgeted for October, as well as sponsor support for the Class of 1970 Hood-to-Coast relay, and the AOG share for the Falcon Stadium box shared with the USAFA Endowment.
- The costs captured in other **office expenses**, including items such as professional memberships, subscriptions and publications, and credit card fees, were approximately 3% over the budget through September.
- The **employee training and education** expenditures were well below the budget expectation as, ultimately, no staff was scheduled to attend the annual Blackbaud conference.
- **Facilities expenses** were below the year-to-date budget, primarily for utilities invoices not yet received from DFAS for USAFA-provided services.
- **Depreciation and amortization** costs were closely in line with the expected budget for the quarter.

Investment Income

The investment results allocated to AOG operations reflected a mix of market results for the quarter. Developed international and emerging markets continued to see declines of value through September, while U.S. stocks continued moderate gains. There were higher than anticipated dividends posted, though market adjustments were significantly below expectations. The total fiscal year balanced portfolio, excluding the small offshore real estate fund and the short-term account, registered a 2.01% quarter return, and a 6.69% annualized return from inception in October 2003. Net allocated gains to operations were approximately \$549,000, consisting of investment interest and dividends received and reinvested of approximately \$172,300, and net realized and unrealized (market) gains of about \$378,000. There were also allocated advisor management fees of about \$1,300. The short-term account registered a 0.61% return for the quarter. For September about 60.77% 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 three months of about \$30,400 from the beginning of the fiscal year, with approximately \$201,300 provided by operations, \$242,700 used for growing the investment portfolio and fixed assets, and a net increase of about \$11,000 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 \$490,800, including petty cash at September 30. Short-term investable cash held at our custodian is reflected in investments report.

Schedule of Investments

Investment sector values at September 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 market gains in every sector except the real estate holdings. All of the portfolio securities values through September, 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 for 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 \$234,300 from operating functions and about a \$230,900 net surplus after operating capital purchases. Important variances to GAAP-basis reporting are included below.

Revenues

- **Investment income and distributions** reflected only 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 \$19,700 in annual memberships and about \$166,800 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. 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

- There were no cash **grants from unrestricted funds** made in the first quarter.
- **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 15% in preparation for the heavy fall sports activities.

- The **insurance and bonding** premiums will be reflected when lines of coverage are renewed and paid in March, as well as a new coverage line for drone liability and physical damage in the second quarter.
- Accrued catering expenses in the previous fiscal year for activities (June 2018 Dayton golf tournament, etc.) that were paid this fiscal year in the **social events and meetings** cost element account for the variance between the GAAP-basis and cash-basis reporting.
- Year-to-date **facilities expenses** paid were significantly below [about 33%] the GAAP-basis expenses primarily because the annual maintenance fees for Blackbaud products (Raisers Edge, Financial Edge, Net Community) NXT versions hadn't yet been invoiced as expected. 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.