

## Statement of Financial Position

As of June 30,  
(Unaudited)

<b><u>Assets</u></b>	<b>2019</b>	<b>2018</b>
Cash and Cash Equivalents	\$ 1,409,271	\$ 540,063
Merchandise Inventory	162,108	154,334
Pledges and Accounts Receivable	648,901	
Less: Discounts and Allowances for Uncollectible	(900)	313,254
Prepaid Expenses	100,518	96,526
<i>Total Current Assets</i>	<u>2,319,898</u>	<u>1,104,177</u>
Investments	50,060,812	50,387,752
Fixed Assets <i>(including Construction in Progress)</i>	12,670,134	
Less: Accumulated Depreciation and Amortization	(8,296,984)	4,636,898
Other Assets	146,092	278,148
<b><i>Total Assets</i></b>	<b><u>\$ 56,899,952</u></b>	<b><u>\$ 56,406,975</u></b>
<b><u>Liabilities:</u></b>		
Accounts and Other Payables	\$ 170,261	\$ 165,782
Agency Deposits	1,261,842	1,468,106
Deferred Income and Unearned Life Memberships	9,967,250	9,536,171
Other Liabilities	146,069	278,148
<i>Total Liabilities</i>	<u>11,545,422</u>	<u>11,448,207</u>
<b><u>Net Assets:</u></b>		
Unrestricted – AOG Operating Reserve	2,891,563	2,795,961
Unrestricted-designated – for Short-term Purposes	290,520	690,000
Unrestricted-designated – for Endowments	13,104,225	10,821,823
Invested in Property and Equipment	4,373,150	4,636,898
Unrestricted-undesignated	4,461,679	5,516,728
Total Unrestricted Net Assets	<u>25,121,137</u>	<u>24,461,410</u>
Temporarily Restricted	13,699,984	14,518,360
Permanently Restricted	6,533,409	5,978,998
<i>Total Net Assets</i>	<u>45,354,530</u>	<u>44,958,768</u>
<b><i>Total Liabilities and Net Assets</i></b>	<b><u>\$ 56,899,952</u></b>	<b><u>\$ 56,406,975</u></b>

**Operating Statement of Activities**  
 For the Fiscal Period Ended June 30, 2019  
 (Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
<b>Revenues</b>				
Donations and Contributions	\$ 208,910	191,723	\$ 17,187	\$ 300,862
Membership Dues	942,226	891,618	50,608	880,070
Merchandising	578,351	592,353	(14,002)	600,204
Member Services	18,210	20,325	(2,115)	15,099
Advertising and Sponsorships	496,552	462,462	34,090	472,538
Reunion Services	309,025	323,995	(14,970)	173,928
Administration Fees	68,080	69,950	(1,870)	36,517
Conferences	316,702	295,000	21,702	303,029
Royalties	136,990	122,838	14,152	121,243
Football Tickets and Tailgates	172,649	129,513	43,136	98,562
Activities and Social Events	87,427	115,226	(27,799)	143,085
Miscellaneous Income	51,451	37,113	14,338	51,297
Grant from USAFA Endowment	800,000	800,000	-	847,854
Transfers from/(to) Restricted Funds	485,873	168,868	317,005	228,316
Total Revenues	<u>4,672,446</u>	<u>4,220,984</u>	<u>451,462</u>	<u>4,272,604</u>
<b>Operating Expenses</b>				
Salaries and Wages	2,020,155	2,035,025	(14,870)	1,978,000
Payroll Taxes	154,710	161,785	(7,075)	151,978
Benefits	257,833	286,762	(28,929)	251,482
Grants from Unrestricted Funds	26,286	13,550	12,736	19,983
Board Governance Costs	42,549	55,050	(12,501)	26,227
Professional Services	329,614	305,233	24,381	263,383
Professional Printing	233,273	219,397	13,876	236,665
Postage and Shipping	140,587	109,873	30,714	112,334
Merchandise Cost of Sales	335,836	371,910	(36,074)	422,910
Insurance and Bonding	37,547	35,740	1,807	35,349
Employee Travel and Meals	58,431	71,098	(12,667)	54,560
Social Events and Meetings	430,279	336,719	93,560	307,990
Office Supplies	36,106	39,118	(3,012)	27,163
Advertising and Corporate Promotion	93,060	80,710	12,350	88,571
Office Expenses	234,805	205,457	29,348	188,280
Employee Training and Education	2,738	8,705	(5,967)	2,512
Facilities Expenses	295,149	280,746	14,403	277,772
Depreciation and Amortization	568,086	598,000	(29,914)	580,911
Total Operating Expenses	<u>5,297,044</u>	<u>5,214,878</u>	<u>82,166</u>	<u>5,026,070</u>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>(624,598)</b>	<b>(993,894)</b>	<b>369,296</b>	<b>(753,466)</b>
<b>Other Income and Deductions</b>				
Investment Interest & Dividends	839,819	429,349	410,470	683,049
Realized/Unrealized Gains/(Losses)	510,996	1,051,328	(540,332)	1,351,810
Total Other Income and Deductions	<u>1,350,815</u>	<u>1,480,677</u>	<u>(129,862)</u>	<u>2,034,859</u>
<b>NET SURPLUS/(DEFICIT)</b>	<b>\$ 726,217</b>	<b>\$ 486,783</b>	<b>\$ 239,434</b>	<b>\$ 1,281,393</b>

## Operating Statement of Cash Flows

For the Fiscal Period Ended June 30,  
(Unaudited)

	2019	2018
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net surplus/(deficit) for the period	\$ 726,217	\$ 1,281,393
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	568,086	580,911
Unrealized (gains) losses on investments	839,309	863,614
Changes in operating assets and liabilities:		
Accounts receivable	63,711	68,681
Contributions receivable, net	-	34
Inventory and prepaid expenses	(6,841)	29,796
Accounts payable and accrued expenses	(45,355)	(59,226)
Construction-in-progress and other assets	132,057	103,634
Deferred revenue	138,755	114,382
Other liabilities	(132,080)	(103,634)
Net cash provided by operating activities	2,283,859	2,879,585
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of investments	(11,959,245)	(20,188,230)
Proceeds from the sale of investments	11,402,460	14,721,661
Purchases of property and equipment	(304,338)	(174,264)
Net cash used in investing activities	(861,123)	(5,640,833)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Net cash (expended)/collected for long-term purposes	(534,601)	2,517,143
Net cash (expended) provided for financing activities	(534,601)	2,517,143
Net increase (decrease) in cash and cash equivalents	888,135	(244,105)
Cash and cash equivalents, beginning of year	521,136	784,168
Cash and cash equivalents at June 30,	\$ 1,409,271	\$ 540,063

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

For the Fiscal Period Ended June 30, 2019

(Unaudited)

	<u>Actual</u>	<u>Percentage</u>
Petty Cash	\$ 600	0.04%
Operating Funds in Bank	1,408,671	99.96%
<b>TOTAL</b>	<u>\$ 1,409,271</u>	<u>100.00%</u>

**Schedule of Investments**

For the Fiscal Period Ended June 30, 2019

(Unaudited)

		<u>%</u>	<u>Target</u>	<u>Max</u>
Short-term Investment Pool	\$ 9,054,526	18.09%	15.0%	20.0%
U. S. Equities (value and growth)	13,997,215	34.14%	30.0%	50.0%
International Equities	8,799,975	21.46%	30.0%	50.0%
Emerging Markets	2,747,287	6.70%	5.0%	10.0%
Real Estate/REITs	1,933,041	4.71%	5.0%	15.0%
Fixed Income	5,847,292	14.26%	10.0%	20.0%
Alternatives	2,878,792	7.02%	15.0%	20.0%
Master Limited Partnerships	1,911,121	4.66%	5.0%	10.0%
AOG Reserve Fund	2,891,540	7.05%	-	-
Investable Cash and unsold stock	23	-	-	10.0%
Total Long-term Investment Pool	41,006,286	100.00%	100.0%	
<b>TOTAL</b>	<u>\$ 50,060,812</u>	<u>100.00%</u>	<u>100.0%</u>	

**Schedule of Capital Additions**
  
 For the Fiscal Period Ended June 30, 2019
   
 (Unaudited)

	<b>Actual</b>	<b>Annual Budget</b>
<i>Paid with operating funds:</i>		
Building and Grounds	\$ 123,427	\$ -
Landscaping	5,220	24,000
Office Equipment	5,510	-
Vehicles	-	-
Furniture & Fixtures	25,461	2,300
Computer Equipment	83,323	65,000
Sabers	-	-
Other <i>(incl. available IBM credits)</i>	-	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	-
	<b>242,941</b>	<b>91,300</b>
 <i>Paid with restricted funds:</i>		
Hot Water Tank System	-	65,000
Maintenance Vehicle/Plow Truck	30,968	40,000
Distinguished Graduate Pedestals and Plaques (4 ea.)	26,929	-
Lawn Mower	3,500	-
Re-glaze Office Windows (6 ea.)	-	12,000
Bathroom Countertops/Faucets	-	22,360
Security Door Locks Replacement	-	4,000
Front Entry Door Hardware	-	2,500
Office Area Carpet Replacement	-	99,900
	<b>61,397</b>	<b>245,760</b>
 Total for restricted funds	 <b>61,397</b>	 <b>245,760</b>
 TOTAL	 <b>\$ 304,338</b>	 <b>\$ 337,060</b>

## Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended June 30, 2019

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
<b>Revenues</b>				
Investment Income and Distributions	\$ 784,715	\$ 725,996	\$ 58,719	\$ 598,432
Donations and Contributions	180,719	186,523	(5,804)	298,269
Membership Dues	714,121	661,618	52,503	670,983
Merchandising	578,351	592,353	(14,002)	600,204
Member Services	18,210	20,325	(2,115)	15,099
Advertising and Sponsorships	463,592	462,462	1,130	433,474
Reunion Services	254,173	323,995	(69,822)	246,859
Administration Fees	68,080	69,950	(1,870)	36,723
Conferences	316,702	295,000	21,702	303,029
Royalties	136,990	122,838	14,152	121,243
Football Tickets and Tailgates	116,636	129,513	(12,877)	154,575
Activities and Social Events	84,927	115,226	(30,299)	137,420
Miscellaneous Income	41,795	37,113	4,682	51,292
Grant from USAFA Endowment	800,000	800,000	-	937,519
Transfers from/(to) Restricted Funds	467,405	168,868	298,537	228,316
<b>Total Revenues</b>	<b>5,026,416</b>	<b>4,711,780</b>	<b>314,636</b>	<b>4,833,437</b>
<b>Operating Expenses</b>				
Salaries and Wages	2,031,991	2,035,025	(3,034)	1,978,000
Payroll Taxes	154,710	161,785	(7,075)	151,978
Benefits	257,833	286,762	(28,929)	251,806
Grants from Unrestricted Funds	22,961	9,850	13,111	16,283
Board Governance Costs	42,549	55,050	(12,501)	26,227
Professional Services	334,038	305,233	28,805	263,907
Professional Printing	232,632	219,397	13,235	256,774
Postage and Shipping	140,587	109,873	30,714	112,312
Merchandise Purchases	363,924	379,212	(15,288)	398,045
Insurance and Bonding	42,017	35,740	6,277	35,814
Employee Travel and Meals	58,092	71,098	(13,006)	54,560
Social Events and Meetings	437,584	336,719	100,865	317,947
Office Supplies	36,339	39,118	(2,779)	26,969
Advertising and Corporate Promotion	88,686	80,710	7,976	81,961
Office Expenses	231,117	205,457	25,660	196,987
Employee Training and Education	2,738	8,705	(5,967)	2,512
Facilities Expenses	305,624	280,746	24,878	285,028
<b>Total Operating Expenses</b>	<b>4,783,422</b>	<b>4,620,480</b>	<b>162,942</b>	<b>4,457,110</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>242,994</b>	<b>91,300</b>	<b>151,694</b>	<b>376,327</b>
Operating Capital Purchases	242,941	91,300	151,641	63,615
<b>NET SURPLUS/(DEFICIT)</b>	<b>\$ 53</b>	<b>\$ -</b>	<b>\$ 53</b>	<b>\$ 312,712</b>



Unaudited Financial Statements  
For the Fiscal Year Ended June 30, 2019

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results for the fiscal year ended June 30, 2019 (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 \$56.90 million, an increase of approximately \$493,000 [0.87%] from \$56.41 million at June 30 the previous year. Net fixed assets decreased by about \$263,700 primarily from depreciation of those assets, offset some with addition of a few assets. Liabilities of the organization increased by only about \$97,200 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 \$2.89 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 assets owned; as well as the balance of the funds supporting operations. Total net assets increased by just under \$395,800 year-over-year, again, largely resulting from allocated investment returns for the year.

The Operating Statement of Activities shows **preliminary** operating results for the year with approximately \$4.672 million in operating revenues, and operating expenses of about \$5.297 million. The result is an operating deficit of about \$624,600, versus a budgeted deficit of about \$993,900. Overall, revenues exceeded the year-to-date budget by about \$451,500, or 10.70%. Operating expenses were about 1.58% higher [about \$82,200] than anticipated in the budget. These fiscal year results improved significantly, by about \$128,900 compared to the previous year operating deficit of about \$753,500. While there were plus and minus budget variances for each of the cost elements, reductions of note include employee salaries, payroll taxes, and benefits; board governance costs; the cost of merchandise sold; employee travel costs; and, depreciation expense. Those were somewhat offset by overages in unrestricted grants provided, contract professional services, professional printing costs, postage and shipping expenses, meeting expenses, advertising and corporate promotion expenses, and office expenses, which are discussed below.

The allocation of investment results to operations through June 30, on a total return basis, was an increase of approximately \$1.351 million, about 8.8% below expectations in the budget. 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 \$726,200 in these preliminary statements for 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, and includes a one-time gift to support the purchase of a new passenger van for the organization. The results exceeded the annual budget by about \$17,200.
- **Membership dues** revenue shown for the year consisted of \$228,000 of recognized life memberships and approximately \$714,200 of new and continuing other memberships, the total of which exceeded the budget by 5.68%.
- **Merchandising** sales through the end of the year were about 2.4% below the 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 getting around much more convenient for returning grads.
- **Advertising and sponsorship revenue** was above the fiscal year budget primarily due to unexpected sponsorships from ARDI and Lockheed Martin.
- **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 below budget expectation due to market compression during the second quarter and the month of May, yielding allocated unrealized losses for the year.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conferences (SACC) and exceeded expectations by about 7.4%.
- The **royalty income** received far exceeded the budget [11.5%], primarily due to unanticipated royalties from WWII travel programs.
- **Tailgate registration income** far exceeded budget expectations, based on tailgate ticket combination packages available for the reunion attendees.
- **Activities and social events revenue** for fee-based special events for the year included more pass-through registrations for chapter events than anticipated in the budget. We paid out those registrations to the chapters prior to the end of the fiscal year. Building rental efforts fell short of expectations as well, primarily due to the scheduled closure of the Chapel and competition from the Eisenhower Golf Club pavilion.



- **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.
- **Transfers from restricted funds** includes the projected operations support from the Long Blue Line Endowment fund, as well as transfers to cover the purchase of fixed assets.

Expenses

- **Salaries and wages**, including bonuses paid, were about 6.3% below the expected budget. They reflect a lower year-end accrued expense for earned vacation leave due to the pay out of all vacation for a retiring long-term employee.
- All elements of **payroll taxes**, including Medicare, Social Security and Colorado unemployment, were below budget expectations for the year.
- **Benefits** paid, especially medical insurance premiums, were all below the annual 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, two red-oak memorial cabinets, and support for the Experienced Based Learning program, a pass-through gift from USAA.
- **Direct governance costs** were about 22.7% below the budget, primarily for costs associated with conducting the election.
- The costs for **professional services** were about 8.0% higher than expectations, primarily due to our agreement with an independent contractor to assist our career services operations.
- **Professional printing** exceeded the budget for the year by about 6.3%, primarily for the *Checkpoints* magazine.
- **Postage and shipping** expenses are significantly higher than the annual budget because the expenses to ship merchandise to customers were reclassified from the cost of sales. Future budgets will account for the past error.
- The **merchandise cost of sales** reflects the average-cost inventory valuation method and adjustment to true up the general ledger and the inventory control system.

	Actuals		Budget	
Sales	\$ 578,351	100.0%	\$ 592,353	100.0%
Cost of Sales	335,836	58.1%	371,910	62.8%
Gross margin	\$ 242,515	41.9%	\$ 220,443	37.2%

- **Insurance and bonding** expenses include new liability and physical damage coverage for the camera drone, and cyber liability coverage. These coverages were not anticipated when the budget was developed.

- Every element of **employee travel and meals** were below the budget, especially for 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 and were not anticipated when the budget was developed. In addition, other higher than anticipated expenses were the production of Founders Day at Arnold Hall for four distinguished graduates, additional busses for Reunions, as well as the Firstie Reception..
- **Office supplies**, including janitorial and kitchen supplies were slightly below the approved budget.
- **Advertising and corporate promotion** expenses included the renewal fee for the IMG advertising and promotion contract, sponsor support for the Class of 1970 Hood-to-Coast relay, the AOG portion for the Falcon Stadium box shared with the USAFA Endowment, and giveaways for the Firstie reception and send-off. Total expenses were partially offset by reimbursement from the Endowment for a portion of the IMG contract.
- The costs captured in other **office expenses** were approximately 14.3% over budget, which reflects one-time subscriptions for Office 365 conversion and a graduate book club management fee.
- The **employee training and education** expenditures were well below budget expectations, primarily due to scheduling conflicts.
- Overall, **facilities expenses** were about 5.1% over budget, primarily for utilities and maintenance of older vehicles.
- **Depreciation and amortization** costs were 5.0% below the expected budget for the year because anticipated capital purchases occurred later in the year than expected.

#### Investment Income

Performance reporting for the long-term portion of the portfolio for the fiscal year showed somewhat of a rollercoaster ride in the fourth quarter. Net allocated investment returns to operations year-to-date were approximately \$1.351 million, consisting of: investment interest and dividends received and reinvested of approximately \$839,800; net realized gains and Madoff Victims Fund recoveries, together totaling about \$867,500; and, unrealized (market) losses of about \$351,400. There were also allocated advisor management fees of about \$5,100. For June about 60.08% 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 year of about \$888,100 from the beginning of the fiscal year. There was approximately \$2.284 million provided by operating activities, \$861,100 used for growing the investment portfolio and purchasing fixed assets, and a net expenditure of about \$534,600 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 \$1,409,300 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. All of the portfolio securities values through the year, 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 year and reflects the expenditures by operations and restricted funds, in comparison to 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 \$243,000 from operating functions and about a break-even 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 \$76,100 in annual memberships and about \$638,000 of Husky and class club, parent, and family memberships.
- **Reunion services** revenue, on a cash basis, were significantly below the budget for the year because many early registrations for the FY 2019 reunions were received in the last quarter of FY 2018. We received some early FY 2020 reunions this fiscal year but were lower than the previous year.
- All other revenue receipts were addressed in the GAAP-basis discussion and were relevant to the cash-basis reporting.

### Expenses

- **Merchandise purchases** on a cash basis, including corresponding freight 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 year budget, and reflected the reclassification of shipping charges to customers into postage and shipping cost element.
- The **insurance and bonding** premiums reflects the new coverage line for drone liability and physical damage, and the coverage for a new maintenance vehicle. All lines of coverage renewed and paid in March and April but are recognized on a prorated monthly basis over the succeeding 12 months for GAAP-basis reporting.
- Year-to-date **facilities expenses** paid were above [about 3.5%] the GAAP-basis expenses because the paid utilities during the year were slightly higher than what was accrued for the last few months of FY 2018.
- All other significant cost elements have been discussed in the previous accrual basis analysis and are relevant to cash basis reporting.

### Operating Capital Purchases

- Capital purchases paid with operating funds include the replacement hot water tank system, though there were insufficient accumulated earnings in the Doolittle Hall endowment to transfer to operations for it. The purchase of the new maintenance truck is also included; funds were transferred from the Heritage Initiatives and Preservation Fund (HIPF) quasi-endowment to operations for it and a new lawnmower.