

## Statement of Financial Position

As of September 30,  
(Unaudited)

<b><u>Assets</u></b>	<b>2019</b>	<b>2018</b>
Cash and Cash Equivalents	\$ 316,395	\$ 490,759
Merchandise Inventory	181,926	174,798
Pledges and Accounts Receivable	1,313,778	
Less: Discounts and Allowances for Uncollectible	(900)	497,953
Prepaid Expenses	72,988	59,494
<i>Total Current Assets</i>	1,884,187	1,223,004
Investments	49,702,556	51,210,137
Fixed Assets <i>(including Construction in Progress)</i>	12,699,150	
Less: Accumulated Depreciation and Amortization	(8,433,377)	4,494,540
Other Assets	146,024	284,536
	<b>Total Assets</b>	<b>\$ 55,998,540</b>
	<b>\$ 55,998,540</b>	<b>\$ 57,212,217</b>
<b><u>Liabilities:</u></b>		
Accounts and Other Payables	\$ 165,539	\$ 161,538
Agency Deposits	1,423,109	1,720,372
Deferred Income and Unearned Life Memberships	10,149,131	9,826,808
Other Liabilities	146,069	284,536
	<b>Total Liabilities</b>	<b>11,883,848</b>
	<b>11,883,848</b>	<b>11,993,254</b>
<b><u>Net Assets:</u></b>		
Unrestricted – AOG Operating Reserve	2,891,563	2,795,961
Unrestricted-designated – for Short-term Purposes	290,520	-
Unrestricted-designated – for Endowments	14,823,067	13,104,225
Invested in Property and Equipment	4,265,773	4,494,540
Unrestricted-undesignated	5,529,294	6,780,040
Total Without Donor Restrictions	27,800,217	27,174,766
With Donor Restrictions	16,314,475	18,044,197
<i>Total Net Assets</i>	44,114,692	45,218,963
	<b>Total Liabilities and Net Assets</b>	<b>\$ 55,998,540</b>
	<b>\$ 55,998,540</b>	<b>\$ 57,212,217</b>

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

	YTD Actual	YTD Budget	Variance	PY YTD
<b>Revenues</b>				
Donations and Contributions	\$ 11,922	\$ 2,870	\$ 9,052	\$ 4,234
Membership Dues	253,852	228,828	25,024	243,163
Merchandising	179,964	123,098	56,866	127,951
Member Services	3,620	3,750	(130)	4,160
Advertising and Sponsorships	251,095	314,610	(63,515)	288,672
Reunion Services	334,766	170,000	164,766	230,846
Administration Fees	-	-	-	-
Conferences	140,216	140,000	216	140,336
Royalties	117,708	109,300	8,408	106,978
Football Tickets and Tailgates	167,209	201,990	(34,781)	167,353
Activities and Social Events	16,114	13,470	2,644	33,820
Miscellaneous Income	726	1,620	(894)	3,772
Grant from USAFA Endowment	-	-	-	-
Transfers from/(to) Restricted Funds	-	-	-	-
Total Revenues	<u>1,477,192</u>	<u>1,309,536</u>	<u>167,656</u>	<u>1,351,285</u>
<b>Operating Expenses</b>				
Salaries and Wages	513,148	543,316	(30,168)	489,656
Payroll Taxes	38,066	43,194	(5,128)	37,531
Benefits	62,164	68,777	(6,613)	72,134
Grants from Unrestricted Funds	2,400	-	2,400	3,325
Board Governance Costs	6,941	6,915	26	4,384
Professional Services	90,300	87,946	2,354	71,522
Professional Printing	12,736	13,751	(1,015)	11,589
Postage and Shipping	41,732	36,509	5,223	37,067
Merchandise Cost of Sales	103,032	76,241	26,791	72,172
Insurance and Bonding	10,284	10,614	(330)	8,953
Employee Travel and Meals	18,076	14,977	3,099	9,184
Social Events and Meetings	99,746	150,583	(50,837)	65,683
Office Supplies	5,769	6,746	(977)	17,000
Advertising and Corporate Promotion	66,358	6,539	59,819	62,910
Office Expenses	89,975	55,800	34,175	50,915
Employee Training and Education	2,007	1,360	647	208
Facilities Expenses	72,994	80,680	(7,686)	63,101
Depreciation and Amortization	136,394	141,000	(4,606)	145,773
Total Operating Expenses	<u>1,372,122</u>	<u>1,344,948</u>	<u>27,174</u>	<u>1,223,107</u>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>105,070</b>	<b>(35,412)</b>	<b>140,482</b>	<b>128,178</b>
<b>Other Income and Deductions</b>				
Investment Interest & Dividends	184,584	135,870	48,714	172,296
Realized/Unrealized Gains/(Losses)	11,585	887,713	(876,128)	376,695
Total Other Income and Deductions	<u>196,169</u>	<u>1,023,583</u>	<u>(827,414)</u>	<u>548,991</u>
<b>NET SURPLUS/(DEFICIT)</b>	<b><u>\$ 301,239</u></b>	<b><u>\$ 988,171</u></b>	<b><u>\$ (686,932)</u></b>	<b><u>\$ 677,169</u></b>

## Operating Statement of Cash Flows

For the Fiscal Period Ended September 30,  
(Unaudited)

	2019	2018
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net surplus for the period	\$ 301,239	\$ 677,169
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	136,394	145,773
Unrealized (gains) losses on investments	120,262	(627,545)
Changes in operating assets and liabilities:		
Accounts receivable	14,211	14,767
Contributions receivable, net	200,000	200,000
Inventory and prepaid expenses	24,534	20,151
Accounts payable and accrued expenses	(166,625)	(56,365)
Construction-in-progress and other assets	67	(6,388)
Deferred revenue	(342,405)	(172,688)
Other liabilities	-	6,388
Net cash provided by operating activities	287,677	201,262
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of investments	(729,866)	(1,109,256)
Proceeds from the sale of investments	973,350	870,000
Purchases of property and equipment	(25,716)	(3,415)
Net cash provided by (used in) investing activities	217,768	(242,671)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Net cash (expended)/collected for long-term purposes	(1,594,716)	11,032
Net cash (expended) provided for financing activities	(1,594,716)	11,032
Net decrease in cash and cash equivalents	(1,089,271)	(30,377)
Cash and cash equivalents, beginning of year	1,405,666	521,136
Cash and cash equivalents at September 30,	\$ 316,395	\$ 490,759

## Statement of Functional Expenses

For the Fiscal Period Ended September 30,  
(Unaudited)

	<b>Program Services</b>	<b>General and Admin</b>	<b>Fundraising</b>	<b>Total</b>
<b>Program Services:</b>				
Academy and Other Services	\$ 2,168,867	\$ -	\$ -	\$ 2,168,867
Cost of Publications	251,368	-	-	251,368
Special Events and Chapter Support	146,574	-	-	146,574
Member Services	76,051	-	-	76,051
Reunions	145,643	-	-	145,643
Career Opportunities	48,201	-	-	48,201
Special Functions	24,886	-	-	24,886
<b>Support Services:</b>				
Salaries and Wages	-	162,411	8,672	171,083
Payroll Taxes	-	11,902	636	12,538
Benefits	-	50,918	270	51,188
Grants from Unrestricted Funds	400	-	-	400
Professional Services	-	48,925	32	48,957
Professional Printing	-	1,045	-	1,045
Postage and Shipping	-	8,500	-	8,500
Insurance and Bonding	-	10,977	-	10,977
Employee Travel and Meals	-	5,430	-	5,430
Social Events and Meetings	-	6,822	-	6,822
Advertising and Corporate Promotion	-	14,876	-	14,876
Office and Facilities Expenses	-	13,511	5,532	19,043
<b>Total Functional Expenses</b>	<b>\$ 2,861,990</b>	<b>\$ 335,317</b>	<b>\$ 15,142</b>	<b>\$ 3,212,449</b>
Percentage of Total	89.09%	10.44%	0.47%	100.00%

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

For the Fiscal Period Ended September 30, 2019

(Unaudited)

	<u>Actual</u>	<u>Percentage</u>
Petty Cash	\$ 1,800	0.57%
Operating Funds in Bank	314,595	99.43%
<b>TOTAL</b>	<u>\$ 316,395</u>	<u>100.00%</u>

**Schedule of Investments**

For the Fiscal Period Ended September 30, 2019

(Unaudited)

	<u></u>	<u>%</u>	<u>Target</u>	<u>Max</u>
Short-term Investment Pool	\$ 8,644,584	17.39%	15.0%	20.0%
U. S. Equities (value and growth)	13,959,105	34.00%	30.0%	50.0%
International Equities	8,691,504	21.17%	30.0%	50.0%
Emerging Markets	2,720,338	6.62%	5.0%	10.0%
Real Estate/REITs	2,075,234	5.05%	5.0%	15.0%
Fixed Income	5,952,710	14.50%	10.0%	20.0%
Alternatives	2,877,657	7.01%	15.0%	20.0%
Master Limited Partnerships	1,870,694	4.56%	5.0%	10.0%
AOG Reserve Fund	2,910,707	7.09%	-	-
Investable Cash and unsold stock	23	-	-	10.0%
Total Long-term Investment Pool	<u>41,057,972</u>	<u>100.00%</u>	<u>100.0%</u>	
<b>TOTAL</b>	<u>\$ 49,702,556</u>	<u>100.00%</u>	<u>100.0%</u>	

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

	<b>Actual</b>	<b>Annual Budget</b>
<i>Paid with operating funds:</i>		
Building and Grounds	\$ -	\$ -
Landscaping	-	-
VALOR Pedestal	4,871	-
Front Entry Doors	3,640	-
Cold Storage Entry Doors	2,535	-
Office Equipment	2,030	5,680
Vehicles	-	-
Furniture & Fixtures	4,300	1,500
Computer Equipment	8,340	36,400
Sabers	-	-
Other <i>(incl. available IBM credits)</i>	-	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	-
	<b>25,716</b>	<b>43,580</b>
<i>Paid with restricted funds:</i>		
Plaza of Heroes concrete restoration	-	100,000
Distinguished Graduate Pedestals and Plaques (4 ea.)	3,300	28,800
Heritage Trail concrete restoration and bridge bypass	-	28,000
Re-glaze Office Windows (6 ea.)	-	12,000
Front Walkway concrete replacement	-	16,400
Parking Lot lighting	-	10,000
	<b>3,300</b>	<b>195,200</b>
<b>TOTAL</b>	<b>\$ 29,016</b>	<b>\$ 238,780</b>



## Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended September 30, 2019

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
<b>Revenues</b>				
Investment Income and Distributions	\$ 131	\$ 155	\$ (24)	\$ 104
Donations and Contributions	2,550	2,870	(320)	2,929
Membership Dues	197,209	168,380	28,829	186,487
Merchandising	179,964	123,098	56,866	127,951
Member Services	3,620	3,750	(130)	4,160
Advertising and Sponsorships	42,750	49,610	(6,860)	270,030
Reunion Services	300,706	170,000	130,706	156,780
Administration Fees	-	-	-	-
Conferences	140,216	140,000	216	140,336
Royalties	17,708	9,300	8,408	106,978
Football Tickets and Tailgates	167,209	201,990	(34,781)	111,340
Activities and Social Events	15,274	13,470	1,804	32,495
Miscellaneous Income	726	1,620	(894)	3,772
Grant from USAFA Endowment	200,000	200,000	-	200,000
Transfers from/(to) Restricted Funds	-	-	-	-
<b>Total Revenues</b>	<b>1,268,063</b>	<b>1,084,243</b>	<b>183,820</b>	<b>1,343,362</b>
<b>Operating Expenses</b>				
Salaries and Wages	513,148	543,316	(30,168)	489,656
Payroll Taxes	38,066	43,194	(5,128)	37,531
Benefits	46,797	68,777	(21,980)	72,134
Grants from Unrestricted Funds	2,400	-	2,400	-
Board Governance Costs	6,941	6,915	26	4,384
Professional Services	102,387	87,946	14,441	74,009
Professional Printing	13,376	13,751	(375)	11,589
Postage and Shipping	41,732	36,509	5,223	37,067
Merchandise Purchases	128,724	105,865	22,859	111,802
Insurance and Bonding	-	876	(876)	-
Employee Travel and Meals	22,939	14,977	7,962	8,845
Social Events and Meetings	113,981	150,583	(36,602)	83,161
Office Supplies	7,615	6,746	869	17,232
Advertising and Corporate Promotion	65,417	6,539	58,878	63,999
Office Expenses	107,957	55,800	52,157	52,145
Employee Training and Education	2,007	1,360	647	208
Facilities Expenses	52,178	80,680	(28,502)	45,277
<b>Total Operating Expenses</b>	<b>1,265,665</b>	<b>1,223,834</b>	<b>41,831</b>	<b>1,109,039</b>
<b>OPERATING SURPLUS/(DEFICIT)</b>	<b>2,398</b>	<b>(139,591)</b>	<b>141,989</b>	<b>234,323</b>
Operating Capital Purchases	25,716	10,895	14,821	3,415
<b>NET SURPLUS/(DEFICIT)</b>	<b>\$ (23,318)</b>	<b>\$ (150,486)</b>	<b>\$ 127,168</b>	<b>\$ 230,908</b>





Unaudited Financial Statements  
For the Fiscal Period Ended September 30, 2019

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results for the fiscal period ended September 30, 2019 (pages 1 through 6) were prepared in accordance with generally accepted accounting principles (GAAP). Page 7 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 \$56.0 million, a decrease of approximately \$1.214 million [2.12%] from \$57.21 million at September 30 the previous year. Net fixed assets decreased by about \$228,800 primarily from depreciation of those assets, offset some with addition of a few assets. Liabilities of the organization decreased by only about \$109,400 net year-over-year, with increases in deferred memberships, offset by a payout of deferred compensation and allocated investment losses year-over-year to the agency deposits. Total net assets without donor restrictions of \$27.80 million 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 decreased by about \$1.104 million year-over-year, again, largely resulting from allocated investment losses and gifts to the Academy from donor restricted funds.

The Operating Statement of Activities shows **preliminary** operating results for the first quarter with approximately \$1.477 million in operating revenues, and operating expenses of about \$1.372 million. The result is an operating surplus of about \$105,100, versus a budgeted deficit of about \$35,400. Overall, revenues exceeded the year-to-date budget by about \$167,700, or 12.80%. Operating expenses were about 2.0% higher [about \$27,200] than anticipated in the budget. The quarterly results were slightly under the previous year's operating surplus of about \$128,200. While there were plus and minus budget variances for each of the cost elements, reductions of note include employee salaries, payroll taxes, and benefits; meeting expenses; facilities expenses; and, depreciation. Those were somewhat offset by overages in merchandise cost of sales, advertising and corporate promotion expenses, and office expenses, which are discussed below.

The allocation of investment results to operations through September 30, on a total return basis, was an increase of approximately \$196,200, well 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 \$301,200 in these preliminary statements for the fiscal quarter.

### Revenues

- **Donations and contributions** reflect new direct gifts from donors, recognized gifts-in-kind, and includes a second gift from a donor to support the purchase of a new passenger van for the organization. The results exceeded the quarterly budget by about \$9,100.
- **Membership dues** revenue shown for the quarter consisted of \$57,000 of recognized life memberships and approximately \$196,900 of new and continuing other memberships, the total of which exceeded the budget by about 10.94%.
- **Merchandising** sales through the three months were well above (about 46.2%) the year-to-date budget expectations and were primarily impacted by the inventory of higher quality merchandise and targeted event sales.
- **Advertising and sponsorship revenues** were significantly below the quarterly budget primarily because part of the new USAA contract in January 2019 was earmarked to support activities in the latter part of the 2019 fiscal year. The revenue will likely track closer to the budget in the third quarter of this fiscal year.
- **Reunion services revenue** reflects administration fees for AOG services for the reunions that occurred during the quarter and registrations received that were deferred from the previous fiscal year. Fees recognized reflect the tiered approach to services offered to classes.
- **Administration fees** for management of the investment portfolio are apportioned to endowments, quasi-endowments and agency funds and are only posted 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 are right in line with expectations.
- The **royalty income** received exceeded the year-to-date budget [7.7%], primarily due to higher than anticipated royalties, especially the WWII 75<sup>th</sup> anniversary travel programs.
- **Tailgate registration income** fell short of quarterly budget expectations, based on tailgate ticket combination packages available for the reunion classes anticipated to participate. Two classes ran their own tailgates and two classes chose a non-football game weekend. They are expected to more closely track to budget through the remainder of the football season.
- **Activities and social events revenue** for fee-based special events for the quarter included building rental efforts, and slightly exceeded expectations.

- The **miscellaneous income** budget revenue variance exists largely due to USAA Rewards points not yet received.
- There were no **transfers from restricted funds** through the first three months of the fiscal year

Expenses

- **Salaries and wages**, including bonuses paid, were about 5.6% below the expected budget through September, and reflect one open position and prorated salary for the single CEO position expected by fiscal year end.
- All elements of **payroll taxes**, including Medicare, Social Security and Colorado unemployment, were below budget expectations for the quarter and track to the year-to-date salaries and wages.
- **Benefits** paid, especially medical insurance premiums, were below the annual budget for the three months. Overall, the 7.50% average increase in the negotiated renewal medical insurance premiums was well below the budgeted 12% increase.
- **Grants from unrestricted funds** included support for annual cadet awards and Graduate Dependent Scholarship program selectees.
- Direct **board governance costs** were right in line with budget expectation through the quarter.
- The costs for **professional services** were about 2.7% higher than expectations, primarily due to higher fees for third-party retirement plan recordkeeping.
- **Professional printing** expenses were slightly below the budget for the quarter, about 7.4%, primarily for membership and chapter support activities.
- **Postage and shipping** expenses were higher than the year-to-date budget primarily from higher first-class postage expenses used for membership mailings and the shipment of merchandise to customers; those were slightly offset by lower costs to mail out the *Checkpoints* magazine for the quarter.
- The **merchandise cost of sales** reflects the average-cost inventory valuation method for sales made.

	Actuals		Budget	
Sales	\$ 179,964	100.0%	\$ 123,098	100.0%
Cost of Sales	103,032	57.3%	76,241	61.9%
Gross margin	\$ 76,932	42.7%	\$ 46,857	38.1%

- **Insurance and bonding** expenses were right in line with budget expectations for the quarter.
- **Employee travel and meals expenses** for the quarter exceeded the year-to-date budget by about \$3,100 primarily due to a special, unbudgeted, opportunity to connect with graduates and donors at an air show in Oshkosh, Wisconsin, as well as added graduate engagement events.

- **Social events and meeting expenses** through September were significantly below the budget, primarily catering and meeting set up costs for reunion and football tailgate invoices that haven't yet been received and paid.
- **Office supplies**, including janitorial and kitchen supplies were slightly below the approved budget for the quarter.
- **Advertising and corporate promotion** expenses included the renewal fee for the Learfield IMG annual advertising and promotion contract, which was paid earlier than anticipated in the budget, as well as support for young alumni programs, graduate engagement, and service projects.
- The costs captured in other **office expenses** were significantly over the year-to-date budget and reflected a new subscription cost for the *ZoomieLink* platform and new mentoring platform, as well as third-party support for sales and use tax collection and remittance.
- The **employee training and education** expenditures were slightly above budget expectations for employee training on *ZoomieLink*.
- Overall, **facilities expenses** were about 9.5% below the year-to-date budget, primarily for all utilities, as well as maintenance needs for Doolittle Hall.
- **Depreciation and amortization** costs were 3.3% below the expected budget for the quarter because some anticipated capital purchases hadn't yet occurred.

#### Investment Income

Performance reporting for the long-term portion of the portfolio for the fiscal quarter showed somewhat of a rollercoaster ride during the first quarter. Net allocated investment returns to operations year-to-date were approximately \$196,200, consisting of: investment interest and dividends received and reinvested of approximately \$184,600; net realized gains from Madoff Victims Fund recoveries, totaling about \$78,700; and, unrealized (market) losses of about \$65,900. There were also allocated advisor management fees of about \$1,300. For September about 60.43% 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 showed that there was a net decrease in cash and cash equivalent funds of about \$1.089 million from the beginning of the fiscal year. There was approximately \$287,700 provided by operating activities, a net \$217,800 provided from managing the investment portfolio and purchasing fixed assets, and a net expenditure of about \$1.595 million for long-term purposes, primarily gifts of Moller Trust funds to USAFA.

#### Statement of Functional Expenses

The financial statement on page 4, as required by Accounting Standard Update (ASU) 2016-14, reflects the method of allocating costs among program and support functions during the reporting period for the total organization. As reported, approximately 89.1% of total costs were identified for program services, 10.4% were

expended toward general and administrative functions, and about 0.5% were incurred and allocated toward fundraising efforts, primarily maintenance of the constituent database.

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

The supplemental information regarding cash and cash equivalent accounts showed operating funds of about \$316,400 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 5 and compares the actual allocation to the target percentage as provided for in the FMIP. All the portfolio securities values through the 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 2010.

### **Schedule of Capital Additions**

The schedule on page 6 showed capital purchases for the quarter and reflects the expenditures by operations and restricted funds, in comparison to the approved fiscal year budget. The decision was made by senior management to expend operating funds for some capital additions for Doolittle Hall during this year in order to allow the accumulated earnings of the building maintenance fund to grow. Some expenditures shown may have been approved in previous year budgets.

### **Cash Basis Operating Statement of Activities**

The final page of the presented financial statements (page 7) was the comparison of the cash flow activities to the year-to-date cash budget for operations only. The statement showed that the organization had a surplus of approximately \$2,400 from operating functions and a net deficit of about \$23,300 after operating capital purchases. Important variances to GAAP-basis reporting are included below.

### **Revenues**

- **Investment income and distributions** reflected only operating account bank interest received during the quarter.
- Total **donations and contributions** recognized were all one-time gifts received from various donors. The receipts were largely right in line with expectations.
- **Membership dues** received and recognized included about \$17,100 in annual memberships and about \$180,100 of Husky and class club, parent, and family memberships.
- **Advertising and sponsorships** received were significantly below the GAAP-basis reporting primarily because the support from USAA was received in January but deferred until the current fiscal year as the result of a new agreement.

- **Reunion services** revenue, on a cash basis, were significantly lower than the GAAP-basis results and reflected only receipts for the quarter from the fall 2019 reunion registrations and activities.
- The annual support **grant from the USAFA Endowment** is received on a prorated monthly basis for cash-basis reporting but was accrued as a receivable for the entire agreement period during the previous fiscal year in accordance with GAAP.
- All other revenue receipts were addressed in the GAAP-basis discussion and were relevant to the cash-basis reporting.

#### Expenses

- The medical premiums for July were paid in late June 2019 while payment of the October renewal premiums was delayed until participant renewal changes were correctly reflected in the bill, therefore **benefits** expenditures varied from the GAAP-basis reporting.
- **Merchandise purchases** on a cash basis, including corresponding freight costs, represented non-inventory merchandise bought during the reporting period, as well as inventory stocking and restocking of new and longstanding items. Actual expenditures exceeded the expected year-to-date budget by about 21.6% as purchases for the winter season were made earlier.
- The **insurance and bonding** premiums will be reflected when lines of coverage are renewed and paid in March but are prorated and recognized monthly on GAAP-basis reporting.
- **Office expenses** include annual subscriptions for new programs that were paid and then deferred but are recognized over a 12-month period for GAAP-basis reporting. There is, therefore, a substantial variance between the GAAP- and cash-basis reporting.
- Year-to-date **facilities expenses** paid were below the GAAP-basis expenses primarily because annual subscriptions for Blackbaud programs are being recognized from the previous year payments but haven't been renewed yet in the current fiscal year.
- 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 assets for the facility that senior management decided would be appropriate for this fiscal year in order to rebuild the accumulated earnings of the building maintenance fund.