

Financial Statements
For the Fiscal Period Ended June 30, 2020 (Unaudited)

Management Discussion and Analysis

Statement of Financial Position (Page 4)

The enclosed **preliminary** financial results for the fiscal period ended June 30, 2020 were prepared in accordance with generally accepted accounting principles (GAAP).

The total assets of the organization were about \$54.0 million, a decrease of approximately \$2.8 million (4.98%) from \$56.9 million at June 30 the previous year.

Total net assets without donor restrictions of \$26.7 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 \$2.901 million year-over-year, largely resulting from disbursements from restricted funds to support the Air Gardens renovation.

Operating Statement of Activities (Page 5)

For operations, there was a net GAAP-basis deficit of approximately \$2,334,800 in these preliminary statements for the year-to-date ending June 30, 2020, largely due to the \$800,000 difference in revenue recognized in FY2019, instead of FY2020 for the AFA Foundation Grant and the reduction of Transfers to Operations. The FY2020 budget anticipated a transfer from the Long Blue Line Endowment of \$250,000.

Revenues (Highlights)

- **Donations and Contributions** were above the quarterly budget primarily because of a gift of \$55 thousand as the result of a distribution from a gift bequest.
- **Membership Dues** exceeded the budget by \$42,000 at the end of the 4th quarter.
- **Merchandising** exceeded budget by \$45,000 due to increased targeted marketing efforts by the merchandising department.
- **Administration Fees** for the end of year have not been recorded but are anticipated to be slightly below budget due to reclassifying Board Designated funds to Unrestricted in May.
- **Service Academy Career Conferences** are below budget for the year due several factors to include: additional overhead costs for a virtual conference software platform, administrative staff to help run the program, as well as reduced revenue from participating companies converting from an in person to virtual conference due to COVID concerns.
- **Royalties** were above budget by approximately \$107,000. The USAA Royalty increased by \$50,000 due to a timing difference resulting from the new contract. The remainder of the increase results from a larger than anticipated royalties on travel programs and the Register of Graduates.

- **Activities and Social Events** were below budget due to the cancellation of the Jabara dinner in February, the postponement of Scotch Tasting, Founders Day, as well the decrease in Building Rentals due to Covid-19 restrictions.

Expenses (Highlights)

- **Salaries** were higher than budgeted due to the change in policy regarding vacation payouts, decreased usage of vacation hours, and payment of a retention bonus.
- **Grants for Unrestricted Funds** was higher than budgeted due to the transfer of Board Designated Funds to Unrestricted funds with associated grants now being charged to Unrestricted funds.
- **Advertising and corporate promotion** expenses included the renewal fee for the Learfield IMG annual advertising and promotion contract, as well as support for young alumni programs, graduate engagement, and service projects.
- **Office expenses** were significantly over the year-to-date budget and reflected a new subscription cost for the *ZoomieLink* platform and new career mentoring platform, as well as third-party support for sales and use tax collection and remittance.

Investment Income

Performance reporting for the long-term portion of the portfolio for the fiscal year-to-date showed gains in the fourth quarter, recovering from the steep losses during the third quarter. Net allocated investment returns to operations year-to-date were approximately \$1,571,015, consisting of: investment interest and dividends received and reinvested of approximately \$780,278; net realized gains from Madoff Victims Fund recoveries, totaling about \$164,300; and, unrealized (market) and realized gains of about \$790,737. For June about 71.55% of the entire portfolio investment results were allocated to AOG operations, based on the guidelines of the FMIP.

Operating Statement of Cash Flows (Page 6)

The statement of cash flows on page 6 showed that there was a net decrease in cash and cash equivalent funds of about \$638 thousand from the beginning of the fiscal year. There was approximately \$1,183,174 used by operating activities, a net \$3,354,465 provided from managing the investment portfolio and purchasing fixed assets, and a net expenditure of about \$2.809 million for long-term purposes, primarily gifts of Moller Trust funds to USAFA.

Funds Held in Short-term Operating Accounts (Page 7)

The supplemental information regarding cash and cash equivalent accounts showed operating funds of about \$767,809 including petty cash at June 30, 2020. Short-term investable cash held at Charles Schwab is reflected in investments report.

Schedule of Investments (Page 7)

Investment sector values at June 30, 2020 were reflected in the supplemental schedule on page 7 and compares the actual allocation of investments in different investment types to the target percentage as provided for in the FMIP. All the portfolio securities values through the fiscal year to date, except the foreign managed real estate investment trust, had been received by the preparation time for these financial statements.

Schedule of Capital Additions (Page 8)

The schedule on page 8 showed capital purchases for the year 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.

Statement of Financial Position

As of June 30,
(Unaudited)

<u>Assets</u>	2020	2019
Cash and Cash Equivalents	\$ 767,809	\$ 1,409,271
Merchandise Inventory	191,037	162,108
Pledges and Accounts Receivable	723,925	
Less: Discounts and Allowances for Uncollectible	(900)	648,001
Prepaid Expenses	120,816	100,518
Total Current Assets	1,802,687	2,319,898
Investments	48,225,759	50,060,812
Fixed Assets <i>(including Construction in Progress)</i>	12,834,611	
Less: Accumulated Depreciation and Amortization	(8,879,075)	4,373,150
Other Assets	51,527	146,092
	\$ 54,065,509	\$ 56,899,952
 <u>Liabilities:</u>		
Accounts and Other Payables	\$ 189,443	\$ 170,261
Agency Deposits	1,267,936	1,261,842
Deferred Income and Unearned Life Memberships	10,159,206	9,967,250
Other Liabilities	(4,088)	146,069
	11,612,497	11,545,422
 <u>Net Assets:</u>		
Unrestricted – AOG Operating Reserve	2,891,563	2,891,563
Unrestricted-designated – for Short-term Purposes	290,520	290,520
Unrestricted-designated – for Endowments	4,522,704	13,104,225
Invested in Property and Equipment	3,985,536	4,373,150
Unrestricted-undesignated	15,040,639	4,461,679
Total Without Donor Restrictions	26,730,962	25,121,137
With Donor Restrictions	15,722,050	20,233,393
Total Net Assets	42,453,012	45,354,530
	\$ 54,065,509	\$ 56,899,952
Total Liabilities and Net Assets	\$ 54,065,509	\$ 56,899,952

Operating Statement of Activities

For the Fiscal Period Ended June 30, 2020
(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	\$ 251,861	\$ 185,880	\$ 65,981	\$ 208,910
Membership Dues	957,097	914,918	42,179	942,226
Merchandising	620,587	575,568	45,019	578,351
Member Services	12,880	15,000	(2,120)	18,210
Advertising and Sponsorships	445,200	474,675	(29,475)	496,552
Reunion Services	270,953	290,000	(19,047)	309,025
Administration Fees	28,764	73,575	(44,811)	68,080
Conferences	239,306	318,885	(79,579)	316,702
Royalties	237,443	130,818	106,625	136,990
Football Tickets and Tailgates	197,748	221,920	(24,172)	172,649
Activities and Social Events	31,709	101,665	(69,956)	87,427
Miscellaneous Income	36,788	49,665	(12,877)	51,451
Grant from Air Force Academy Fdtn	-	800,000	(800,000)	800,000
Air Force Academy Fdtn Svc Agreement	13,806	-	13,806	-
Transfers from/(to) Restricted Funds	62,858	306,800	(243,942)	485,873
Total Revenues	3,407,000	4,459,369	(1,052,369)	4,672,446
Operating Expenses				
Salaries and Wages	2,382,291	2,191,265	191,026	2,020,155
Payroll Taxes	176,510	174,206	2,304	154,710
Benefits	281,051	275,108	5,943	257,833
Grants from Unrestricted Funds	43,747	10,300	33,447	26,286
Board Governance Costs	21,218	23,430	(2,212)	42,549
Professional Services	339,202	337,383	1,819	329,614
Professional Printing	206,918	240,065	(33,147)	233,273
Postage and Shipping	150,093	145,706	4,387	140,587
Merchandise Cost of Sales	358,169	356,696	1,473	335,836
Insurance and Bonding	46,234	42,760	3,474	37,547
Employee Travel and Meals	60,316	71,290	(10,974)	58,431
Social Events and Meetings	422,731	464,954	(42,223)	430,279
Office Supplies	21,492	28,682	(7,190)	36,106
Advertising and Corporate Promotion	94,268	76,463	17,805	93,060
Office Expenses	283,834	208,822	75,012	234,805
Employee Training and Education	2,296	10,285	(7,989)	2,738
Facilities Expenses	299,336	295,805	3,531	295,149
Depreciation and Amortization	552,091	570,200	(18,109)	568,086
Total Operating Expenses	5,741,797	5,523,420	218,377	5,297,044
OPERATING SURPLUS/(DEFICIT)	(2,334,797)	(1,064,051)	(1,270,746)	(624,598)
Other Income and Deductions				
Investment Interest & Dividends	780,278	795,749	(15,471)	839,819
Realized/Unrealized Gains/(Losses)	790,737	900,416	(109,679)	510,996
Total Other Income and Deductions	1,571,015	1,696,165	(125,150)	1,350,815
NET SURPLUS/(DEFICIT)	\$ (763,782)	\$ 632,114	\$ (1,395,896)	\$ 726,217

Operating Statement of Cash Flows

For the Fiscal Period Ended June 30, (Unaudited)

	2020	2019
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net surplus for the period	\$ (763,782)	\$ 726,217
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	552,091	568,086
Unrealized (gains) losses on investments	220,077	839,309
Changes in operating assets and liabilities:		
Accounts receivable	(53,853)	63,711
Contributions receivable, net	800,000	-
Inventory and prepaid expenses	(33,100)	(6,841)
Accounts payable and accrued expenses	(143,407)	(45,355)
Construction-in-progress and other assets	150,289	132,057
Deferred revenue	(161,330)	138,755
Other liabilities	(150,158)	(132,080)
<i>Net cash provided by (used in) operating activities</i>	<i>(1,183,174)</i>	<i>2,283,859</i>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(3,583,796)	(11,959,245)
Proceeds from the sale of investments	7,099,438	11,402,460
Purchases of property and equipment	(112,203)	(304,338)
<i>Net cash provided by (used in) investing activities</i>	<i>3,354,465</i>	<i>(861,123)</i>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Net cash (expended)/collected for long-term purposes	(2,809,148)	(534,601)
<i>Net cash (expended) provided for financing activities</i>	<i>(2,809,148)</i>	<i>(534,601)</i>
<i>Net increase in cash and cash equivalents</i>	<i>(637,856)</i>	<i>888,135</i>
Cash and cash equivalents, beginning of year	1,405,666	521,136
Cash and cash equivalents at June 30,	\$ 767,809	\$ 1,409,271

Funds Held in Short-term Operating Accounts
 For the Fiscal Period Ended June 30, 2020 (Unaudited)

	Actual	Percentage
Petty Cash	\$ 600	0.08%
Operating Funds in Bank	767,209	99.92%
TOTAL	\$ 767,809	100.00%

Schedule of Investments

For the Fiscal Period Ended June 30, 2020
(Unaudited)

	%	Target	Max	
Short-term Investment Pool	\$ 5,832,257	12.09%	15.0%	20.0%
U. S. Equities (value & growth)	15,340,341	36.19%	30.0%	50.0%
International Equities	8,932,418	21.07%	30.0%	50.0%
Emerging Markets	2,927,787	6.91%	5.0%	10.0%
Real Estate/REITs	1,810,476	4.27%	5.0%	15.0%
Fixed Income	6,271,578	14.79%	10.0%	20.0%
Alternatives	2,724,616	6.43%	15.0%	20.0%
Master Limited Partnerships	1,443,834	3.41%	5.0%	10.0%
AOG Reserve Fund	2,942,428	6.93%	-	-
Investable Cash and unsold stock	24	0.00%	-	10.0%
Total Long-term Investment Pool	42,393,502	100.00%	100.0%	
TOTAL	\$ 48,225,759	100.00%	100.0%	

Schedule of Capital Additions
 For the Fiscal Period Ended June 30, 2020
 (Unaudited)

	Actual	Annual Budget
<i>Paid with operating funds:</i>		
Building and Grounds	\$ 7,317	\$ -
VALOR Pedestal	4,871	-
Front Entry Doors	3,640	-
Cold Storage Entry Doors	2,535	-
Office Equipment	6,017	5,680
Vehicles	58,272	-
Furniture & Fixtures	4,300	1,500
Computer Equipment	25,251	36,400
Sabers	-	-
Other <i>(incl. available IBM credits)</i>	-	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	-
	<u>112,203</u>	<u>43,580</u>
 <i>Paid with restricted funds:</i>		
Plaza of Heroes concrete restoration	27,325	100,000
Distinguished Graduate Display	9,823	
Distinguished Graduate Pedestals and Plaques (5 ea.)	33,823	28,800
Heritage Trail concrete restoration and bridge bypass	-	28,000
Re-glaze Office Windows (6 ea.)	-	12,000
Heritage Trail Improvements	50,096	-
Front Walkway concrete replacement	-	16,400
Pavers	2,528	-
Parking Lot lighting	-	10,000
	<u>123,595</u>	<u>195,200</u>
 Total for restricted funds	 <u>123,595</u>	 <u>195,200</u>
 TOTAL	 <u>\$ 235,798</u>	 <u>\$ 238,780</u>