



**ASSOCIATION OF GRADUATES
OF THE
UNITED STATES AIR FORCE ACADEMY**

Financial Statements

For the Six-Month Period Ended December 31, 2020

And

Independent Auditors' Report

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTAL SCHEDULES	
Schedule of Funds with Donor Restrictions – Non-Endowment	18
Schedule of Funds with Donor Restrictions – Restricted Endowment	20

INDEPENDENT AUDITORS' REPORT

Board of Directors
Association of Graduates of the United States Air Force Academy
Colorado Springs, Colorado

We have audited the accompanying financial statements of the Association of Graduates of the United States Air Force Academy (the Association), which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, functional expenses, and cash flows for the six-month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2020 and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Funds with Donor Restrictions are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan + Co. LLP

August 19, 2021

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020**

ASSETS

Cash and cash equivalents	\$ 1,259,428
Accounts receivable	139,911
Contributions receivable, net	377,025
Investments	54,067,551
Investments – agency	1,339,103
Inventory and prepaid expenses	370,076
Beneficial interest in trust	60,633,909
Property and equipment, net	<u>3,993,172</u>
TOTAL ASSETS	<u>\$122,180,175</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 602,668
Agency deposits	1,339,103
Deferred revenue	<u>9,814,894</u>
Total liabilities	<u>11,756,665</u>

NET ASSETS

Without donor restriction:	
Board designated for endowment	5,238,427
Board designated for reserve	1,338,455
Board designated for short term purposes	290,520
Available for operations	22,546,358
Invested in property and equipment	<u>3,993,172</u>
Total without donor restriction	33,406,932
With donor restriction	<u>77,016,578</u>
Total net assets	<u>110,423,510</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$122,180,175</u>

See notes to financial statements.

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**STATEMENT OF ACTIVITIES
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Investment income, net	\$ 7,028,411	\$ 2,794,593	\$ 9,823,004
Change in fair value of beneficial interest in trust		6,505,691	6,505,691
Membership dues	1,361,719		1,361,719
Contributions	131,507	87,233	218,740
Publication and advertising	141,222		141,222
Merchandise, net of costs of \$176,051	119,604		119,604
Royalties	53,281		53,281
Other revenue	<u>277,161</u>		<u>277,161</u>
Total support and revenue before net assets released from restrictions	9,112,905	9,387,517	18,500,422
Net assets released from restrictions	<u>2,264,216</u>	<u>(2,264,216)</u>	
Total support and revenue	<u>11,377,121</u>	<u>7,123,301</u>	<u>18,500,422</u>
EXPENSES			
Program services	3,357,730		3,357,730
Supporting services:			
General and administrative	974,452		974,452
Fundraising	<u>10,408</u>		<u>10,408</u>
Total expenses	<u>4,342,590</u>	<u>—</u>	<u>4,342,590</u>
CHANGE IN NET ASSETS	<u>7,034,531</u>	<u>7,123,301</u>	<u>14,157,832</u>
NET ASSETS, Beginning of year, as previously reported	26,372,401	15,765,059	42,137,460
Prior period adjustment		<u>54,128,218</u>	<u>54,128,218</u>
NET ASSETS, Beginning of year, restated	<u>26,372,401</u>	<u>69,893,277</u>	<u>96,265,678</u>
NET ASSETS, End of year	<u>\$ 33,406,932</u>	<u>\$ 77,016,578</u>	<u>\$ 110,423,510</u>

See notes to financial statements.

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	Program Services					Support Services				Total
	Academy and Other Services	Cost of Publications	Special Events and Chapter Support	Member Services	Reunions	Total	General and Administrative	Fundraising	Total	
Grants	\$ 1,644,763					\$ 1,644,763				\$ 1,644,763
Salaries and wages	303,980	\$ 303,980	\$ 206,339	\$ 50,922	\$ 49,366	914,587	\$ 676,947	\$ 6,852	\$ 683,799	1,598,386
Office and facilities expenses	218,781	109,178	90,329	38,135	22,034	478,457	196,317	2,283	198,600	677,057
Cost of merchandise sold				176,051		176,051				176,051
Professional services	73,177	1,256	33,900			108,333	48,637	595	49,232	157,565
Professional printing	700	99,194	614	1,359		101,867	1,852	675	2,527	104,394
Postage and shipping	36,387	47,063	631	5,073		89,154	5,743	3	5,746	94,900
Insurance and bonding							31,945		31,945	31,945
Advertising and corporate promotion	10,048	204	1,044	4,730		16,026	11,880		11,880	27,906
Employee travel and meals		3,323	(183)			3,140	1,131		1,131	4,271
Social events and meetings	62		1,341			1,403				1,403
Total expense by function	2,287,898	564,198	334,015	276,270	71,400	3,533,781	974,452	10,408	984,860	4,518,641
Less expenses included with revenues on the statement of activities:										
Cost of merchandise sold				(176,051)		(176,051)				(176,051)
TOTAL EXPENSES INCLUDED IN THE EXPENSE SECTION ON THE STATEMENT OF ACTIVITIES	\$ 2,287,898	\$ 564,198	\$ 334,015	\$ 100,219	\$ 71,400	\$ 3,357,730	\$ 974,452	\$ 10,408	\$ 984,860	\$ 4,342,590
PERCENTAGE	52.7%	13.0%	7.7%	2.3%	1.6%	77.3%	22.4%	0.3%	22.7%	100.0%

See notes to financial statements.

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

OPERATING ACTIVITIES	
Change in net assets	\$ 14,157,832
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized and unrealized gains on investments	(8,224,942)
Change in fair value of beneficial interest in trust	(6,505,691)
Depreciation	286,253
Contributions restricted for long-term purposes	(87,233)
Changes in operating assets and liabilities:	
Accounts receivable	(69,683)
Grants receivable	602,670
Inventory and prepaid expenses	(53,000)
Accounts payable and accrued expenses	375,817
Agency deposits	201,022
Deferred revenue	<u>(895,562)</u>
Net cash used in operating activities	<u>(212,517)</u>
INVESTING ACTIVITIES	
Proceeds from sales of investments	4,123,864
Purchases of investments	(3,151,587)
Purchases of property and equipment	<u>(287,920)</u>
Net cash provided by investing activities	<u>684,357</u>
FINANCING ACTIVITIES	
Net cash provided by financing activities —	
Collection of contributions restricted for long-term purposes	<u>22,012</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	493,852
CASH AND CASH EQUIVALENTS, Beginning of year	<u>765,576</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,259,428</u>

See notes to financial statements.

ASSOCIATION OF GRADUATES OF THE UNITED STATES AIR FORCE ACADEMY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Association of Graduates of the United States Air Force Academy (the Association) is an organization serving the youngest of the service academies and its graduates. The Association is chartered to support the ideals, values and heritage of the United States Air Force Academy (the Academy); to encourage exceptional candidates to attend the Academy; to encourage and support fundraising for use in furthering the objectives of the Academy and the Association; to foster camaraderie; and to provide a wide variety of services to graduates, cadets and their parents. The Association is an important conduit for the support that exists throughout the country for the Academy and its mission. It provides the "extra margin of excellence", supporting worthy programs not supported by federal funds.

To ensure observance of any limitations or restrictions placed on the use of resources available to the Association, the financial records of the Association are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

Basis of Presentation — The Association reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions - Net assets available for use in general operations - not subject to donor restrictions.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — The Association considers all liquid investments with original maturities of three months or less, and which are not held for long term investment purposes, to be cash equivalents. Cash and highly liquid financial instruments held for long term purposes, regardless of original length to maturity, are reported as investments and are excluded from this

definition. The net amount of operating cash added to, or withdrawn from, the long-term investments is reported as an investing activity in the statement of cash flows.

Accounts Receivable — Accounts receivable are stated at the invoice amount. Management provides for probable uncollectible amounts through a provision for bad debts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2020, management considers all accounts receivable to be fully collectible and, accordingly, there is no valuation allowance.

Contributions Receivable — Contributions receivable are recognized in the period received. The Association uses the allowance method to account for uncollectible contributions receivable. The allowance is based on historical experience and management's analysis of individual promises. At December 31, 2020, the allowance for uncollectible contributions receivable was \$900.

Investments — Investments are recorded at fair value. Realized and unrealized gains and losses are reflected in the statement of activities. Earnings and losses on investments are recognized as increases or decreases in net assets according to the nature of the restrictions on the original gift. Donated investments are recorded at fair market value on the date of donation. See Note 5 for information on fair value measurements.

Investments – Agency — The Association holds and invests monies for certain graduate classes of the Academy for those classes' activities at future dates and for other organizations. These funds are classified as agency deposits and are recorded at fair value.

Inventories — Inventories consist of items held for sale and are stated at the lower of first-in, first-out (FIFO) cost or net realizable value.

Property and Equipment — Property and equipment are recorded at cost for assets purchased by the Association and at estimated fair value at the date of donation for contributed assets. Depreciation of property and equipment is recorded using the straight-line method over estimated useful lives of 3 to 3½ years. The Association's policy is to capitalize assets costing \$1,000 or more with a useful life of one year or more.

Deferred Revenue — Deferred revenue is comprised of receipts for the Life Membership Fund (LMF) and royalties and dues.

The LMF contains the accounts used to invest, monitor and control fees received as a result of the Association's agreement to provide lifetime services to members who have chosen this membership option. The LMF and the current life membership fees are maintained and determined on a basis that is designed to ensure that the original fee is adequate to fund the annual cost of membership over the average life of participants in the program. Current life membership fees are treated as additions to deferred revenue. The LMF fees are amortized over an assumed average life expectancy of 55 years after graduation.

Royalties and dues collected in periods before being earned are presented on the financial statements as deferred revenue.

Revenue Recognition — Contributions received are recorded as net assets with or without donor restrictions depending on the existence or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed Goods, Services and Facilities — Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Income Taxes — The Association is a qualified Association exempt from federal income taxes under the provisions of §501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for the charitable contribution deduction. The Association believes that it does not have any uncertain tax positions that are material to the financial statements.

Subsequent Events — The Association has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

The following table reflects the Association's financial assets as of December 31, 2020, reduced by amounts that are not available to meet general expenditures within one year from the statement of financial position date because of contractual restrictions and board designations. Amounts not available to meet general expenditures within one year include net assets with donor restrictions and board designated funds as of December 31, 2020:

Cash and cash equivalents	\$ 1,259,428
Accounts receivable	139,911
Contributions receivable, net	377,025
Investments	54,067,551
Investments – agency	1,339,103
Beneficial interest in trust	<u>60,633,909</u>
Total financial assets	<u>117,816,927</u>

Less amounts unavailable for general expenditures within one year, due to:	
Agency deposits held for other organizations	1,339,103
Restricted by donors with purpose restrictions	16,382,669
Beneficial interest in trust	<u>60,633,909</u>
Total amounts unavailable for general expenditures within one year	<u>78,355,681</u>
Less amounts unavailable to management without Board's approval:	
Board designated for short term purposes	290,520
Board designated for program and support services	<u>6,576,882</u>
Total amounts unavailable to management without Board's approval	<u>6,867,402</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 32,593,844</u>

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available to support its operations and the United States Air Force Academy. Earnings from cash and investments, memberships, merchandise sales, an annual grant received from the Air Force Academy Foundation (formerly known as the USAFA Endowment), and other revenue sources, are used to enable the Association to provide a variety of services to current cadets and graduates, and to further its heritage recognition mission. The Association seeks to maintain financial asset balances that generate income to support its programs. The Association manages an emergency cash flow and has established and monitors responsible investment guidelines and policies, and through quarterly analysis of cash flows and budgeted expenses, it funds the general operations of the organization and administers programs in support of the Academy. The Association manages its cash flow for a one-year cycle from the date of the statement of financial position.

3. FUNCTIONAL EXPENSES ALLOCATION METHODS

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Association. Therefore, many expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services include payroll and related taxes and benefits, professional services, postage and shipping, and office and facilities expenses. All other expenses are attributed directly to individual projects, each of which is identified to a specific operational function.

4. AGREEMENTS WITH THE AIR FORCE ACADEMY FOUNDATION

The Association and the Air Force Academy Foundation (the Foundation), have entered into a Memorandum of Understanding (the MOU) to establish a collaborative, comprehensive friendraising and fundraising process designed to raise increasing levels of charitable support for the Academy and to better serve the needs of the graduate community. There was one MOU in effect

during the six-month period ended December 31, 2020. The MOU was effective January 1, 2019 and expired on December 31, 2020. Under the MOU, the Foundation made an annual grant of \$800,000 to the Association, paid in equal monthly installments.

As of December 31, 2020, the Association had received all amounts under the MOU, and accordingly no receivable has been recognized. During the six-month period ended December 31, 2020, there was no revenue recognized for the MOU due to the revenue being fully recognized in prior fiscal periods.

On December 31, 2020, the Association and the Foundation renewed the MOU for the effective period of January 1, 2021 to December 31, 2021. The Foundation will make a grant of \$800,000 to the Association, paid in equal monthly installments. Either party may terminate the MOU with 60 days written notice.

The Association and the Foundation have an Operating Support Contract (the Contract) under which the Association will provide services including office space, furniture and equipment, data entry services, mail and check processing services, and information technology support. The Foundation is not required to make any payments for these services.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Association is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in the methodologies used at December 31, 2020.

Mutual Funds and Money Market Funds — Valued at quoted market prices.

Partnership Interests — Valued based on the net asset value (NAV) per share. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it was determined to be probable that the investment would be sold at an amount different from the reported NAV. NAV is based upon the fair value of the underlying investments as determined by fund's management and its underlying investment managers. The partnership interests are invested in investment funds, limited partnerships, and private investment companies. The fair values of the underlying investments may differ significantly from the values that would have been used had a ready market for the underlying funds existed.

The fair value of the beneficial interest in trust is based on the fair value of investments as reported by the trust. (See Note 7)

The following tables set forth by level, within the fair value hierarchy, the Association's assets stated at fair value as of December 31, 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Mutual funds:				
Domestic equity	\$ 19,546,543			\$ 19,546,543
International equity	15,689,469			15,689,469
Fixed income	14,667,700			14,667,700
Alternatives	2,939,161			2,939,161
REIT/real estate	2,467,307			2,467,307
Money market	5,471			5,471
Beneficial interest in trust	<u> </u>	<u>\$ 60,633,909</u>	<u>\$ —</u>	<u>60,633,909</u>
Total investments in the fair value hierarchy	<u>\$ 55,315,651</u>	<u>\$ 60,633,909</u>	<u>\$ —</u>	115,949,560
Investments measured at net asset value				<u>91,003</u>
Total				<u>\$ 116,040,563</u>

Assets measured at fair value are included in the following amounts on the statement of financial position as of December 31, 2020:

Investments	\$ 54,067,551
Investments – agency	1,339,103
Beneficial interest in trust	<u>60,633,909</u>
Total	<u>\$ 116,040,563</u>

There are no unfunded commitments related to the investments measured at net asset value. The following table summarizes investments measured at net asset value per share as of December 31, 2020:

Investment	Redemption Fair Value	Redemption Frequency	Notice Period
Phoenix Global Real Estate Fund LP	\$ <u>91,003</u>	On the last day of any quarter, after 3 years	In liquidation

Phoenix Global Real Estate Fund L.P. (Phoenix Global): The Phoenix Global investment strategy is to provide a superior long-term growth of capital through investments in portfolios concentrated in real estate and real estate related interest through various strategies. The Phoenix Global fund is in liquidation.

Net investment income was composed of the following for the six-month period ended December 31, 2020:

Net realized and unrealized gains	\$ 8,224,942
Distributions of income from trust	1,355,750
Interest and dividends	247,117
Investment management and custodial fees	<u>(4,805)</u>
Investment income, net	<u>\$ 9,823,004</u>

Included in total investments is an investment of \$91,003 that was in liquidation as of December 31, 2020. Final liquidation of the investment is expected sometime in the near future. Accordingly, these amounts may not be readily redeemable for cash and may not be fully recoverable.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2020:

Buildings and improvements	\$ 10,460,496
Equipment	2,543,584
Construction in process	<u>124,420</u>
Total	13,128,500
Less accumulated depreciation	<u>(9,135,328)</u>
Total	<u>\$ 3,993,172</u>

Depreciation expense was \$286,253 during the six-month period ended December 31, 2020.

7. BENEFICIAL INTEREST IN TRUST

The Association is a beneficiary of the Dorothy and Joseph Moller Foundation Trust (the Trust), whose principal is to be held in perpetuity. Assets of the trust are invested and administered by the Trust. Annual distributions are made from the Trust. Assets of the Trust consist of money market funds, domestic and international equity securities, and fixed income securities. The Association records its interest in the Trust at the fair value of the assets held by the Trust. Fair values for investments held by the Trust are determined by reference to quoted market prices and other observable information. As of December 31, 2020, the Association's share of the fair value of the Trust was \$60,633,909. The Association received distributions from the Trust of \$1,355,750 during the six-month period ended December 31, 2020, which is included as investment income in the accompanying statement of activities. The Association recognized a gain on the change in fair value of the Trust of \$6,505,691 during the six-month period ended December 31, 2020.

8. BOARD DESIGNATED NET ASSETS

Board designated net assets consists of the following at December 31, 2020:

The Francis C. Bennett Soaring Margin of Excellence Fund is designated to provide funds to support the Soaring program of the Academy. There were no funds designated during the six-month period ended December 31, 2020. \$ 4,207,029

The Board Designated AOG Reserve Fund was established to provide emergency support to AOG operations when other funds might not be readily available. A separate investment security was bought during the year ended June 30, 2018, and reflects the value of the reserve. There were no funds designated during the six-month period ended December 31, 2020. 1,338,455

The AOG Heritage and Initiatives Preservation Fund is designated to provide maintenance funds for properties on land leased to the AOG, to fund planning needs for future heritage programs, and to support potential donor heritage initiatives. There were no funds designated during the six-month period ended December 31, 2020. 922,269

Board designated funds for short term purposes. There were no funds designated during the six-month period ended December 31, 2020. 290,520

The Graduate Engagement Fund is designated to fund new and/or improve current graduate engagement initiatives to allow the Association of Graduates to better achieve its mission of providing leadership, communication and support to all Academy graduates and friends of the Academy and promote camaraderie among them. There were no funds designated during the six-month period ended December 31, 2020.

109,129

Total

\$ 6,867,402

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions may be expended for the following purposes at December 31, 2020:

Time restrictions	\$ 60,633,909
Program and support services	7,340,212
Endowment funds	6,554,797
Building maintenance and improvements	<u>2,487,660</u>
Total	<u>\$ 77,016,578</u>

Net assets with donor restrictions include endowment fund assets to be held indefinitely. The income from the assets can be used for future needs of the Association.

10. ENDOWMENT FUNDS

The Association's endowment funds are restricted for the purpose of supporting the operations of the Association. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The act provides statutory guidance for management investment and expenditure of endowment funds held by not-for-profit organizations. The Association has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the

following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds		\$ 6,554,797	\$ 6,554,797
Board-designated endowment funds	<u>\$ 5,238,427</u>	<u> </u>	<u>5,238,427</u>
Total funds	<u>\$ 5,238,427</u>	<u>\$ 6,554,797</u>	<u>\$ 11,793,224</u>

Changes in endowment net assets for the six-month period ended December 31, 2020 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, Beginning of year	\$ 4,620,017	\$ 5,760,206	\$ 10,380,223
Net investment income	723,620	867,580	1,591,200
Contributions		70,366	70,366
Board designation of net assets without donor restriction	(105,210)		(105,210)
Appropriation of endowment assets for expenditures	<u> </u>	<u>(143,355)</u>	<u>(143,355)</u>
Endowment net assets, End of year	<u>\$ 5,238,427</u>	<u>\$ 6,554,797</u>	<u>\$ 11,793,224</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. There were no such deficiencies of this nature as of December 31, 2020.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are

invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide a rate of return sufficient to keep pace with the rate of inflation. Actual returns in any given year may vary from this amount.

11. EMPLOYEE RETIREMENT PLAN

The Association established a qualified 401(k) profit sharing plan (the Plan) covering all employees who are twenty-one years of age or older, have completed one year of service, and are not covered by a collective bargaining agreement. The employees may make elective contributions of up to 100% of compensation, subject to statutory limitations, and the Association will make matching contributions equal to 25% of the employee's elective deferrals of up to 5% of compensation. In addition, the Association may make discretionary contributions to the Plan. The Plan provides for full vesting of matching and discretionary contributions after six years of service. The Association made contributions of \$46,978 for the six-month period ended December 31, 2020.

12. SIGNIFICANT CONCENTRATIONS

The Association maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. As of December 31, 2020, the Association had all of its net contribution receivables due from one donor.

The Association invests in investment securities which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the recorded amount of investments in the Association's financial statements.

13. PRIOR PERIOD ADJUSTMENTS

In previously issued financial statements, the Association did not record its interest in a trust under which it was a beneficiary. Accounting standards require that when a beneficiary has an unconditional right to receive some of the specified cash flows from a trust, the beneficiary should measure its beneficial interest at fair value. Correcting the error created the asset beneficial interest in trust. Accordingly, beginning net assets have been increased by \$54,128,218 in order to record the effect of the restatement on prior years in the accompanying financial statements.

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

SUPPLEMENTAL SCHEDULES

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**SCHEDULE OF FUNDS WITH DONOR RESTRICTIONS – NON-ENDOWMENT
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	Beginning Balance, as restated	Contributions and Reclassification	Investment Earnings	Change in Fair Value	Total Revenue	Expenses and Releases	Grants and Allocations	Ending Balance
Nutter Fund	\$ 255,734						\$ (1,297)	\$ 254,437
Superintendent Fund	94,253		\$ 27,115		\$ 27,115			121,368
Supt-Other Discretionary Fund	3,950,237		1,328,635		1,328,635	\$ (124,420)	(579,054)	4,575,398
DFAS (Astro Dept)	7,733							7,733
Wing Open Boxing	1,368							1,368
Tony M. Johnson	2,868							2,868
Academics General - License Plates	5,600	\$ 1,400			1,400			7,000
AOG SEA Plaques and Memorials	5,887	5,000			5,000		(5,000)	5,887
Class Gift of '02	51							51
Class Gift of '10	240,505	7,701			7,701			248,206
Class Gift of '60	469							469
Class Gift of '61	2,854						200	3,054
Class Gift of '64	77,672							77,672
Class Gift of '65	4,114							4,114
Class Gift of '66	133,438							133,438
Class Gift of '68	12,405							12,405
Class Gift of '69	6,572							6,572
Class Gift of '72	5,820							5,820
Class Gift of '74	56,335						(36,335)	20,000
Class Gift of '76	9,774							9,774
Class Gift of '77	10,506							10,506
Class Gift of '78	8,053							8,053
Class Gift of '81	71,742							71,742
Class Gift of '83	1,762							1,762
Class Gift of '84	16,753							16,753
Class Gift of '85	20,732							20,732
Class Gift of '87	1,564							1,564
Class Gift of '88	14,753							14,753
Class Gift of '89	5,154							5,154
Class Gift of '90	20,195							20,195
Class Gift of '91	103,900							103,900
Class Gift of '92	92,702							92,702
Class Gift of '94	1,100							1,100
Class Gift of '95	163							163
Class Gift of '96	850							850
Visiting Lecturer Systems Engineering	65							65

(Continued)

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**SCHEDULE OF FUNDS WITH DONOR RESTRICTIONS – NON-ENDOWMENT
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	Beginning Balance, as restated	Contributions and Reclassification	Investment Earnings	Change in Fair Value	Total Revenue	Expenses and Releases	Grants and Allocations	Ending Balance
McConn Scholarship	546,450		77,241		77,241	(1,957)	(101,836)	519,898
Kruzel Defense Policy	26,777		4,287		4,287	(116)		30,948
Falcon Foundation	224,204		35,525		35,525	(935)	(10,370)	248,424
Falcon Foundation Ackerman	433,280		68,654		68,654	(1,807)	(20,040)	480,087
Admissions - Hennek	56,902		9,110		9,110	(248)		65,764
Football - Hennek	62,736		10,044		10,044	(273)		72,507
LaCrosse and Fencing	35,932		5,753		5,753	(156)		41,529
Warrior Remembrance	470,772						(470,772)	
Storyteller Exhibit Maintenance Endowment	87,330		13,982		13,982	(380)		100,932
Falcon Heritage Forum Keynote Speaker	102,989		16,489		16,489	(448)		119,030
Falcon Heritage Forum Travel	51,879		8,306		8,306	(226)		59,959
Class of '65 endowment	145,616		23,313		23,313	(633)		168,296
Character - Legasey	141,026		10,444		10,444	(193)	(100,000)	51,277
Character - Schlossberg	278,624		44,607		44,607	(1,212)		322,019
Character - Moore	61,571		9,813		9,813	(268)		71,116
Character - West	163,413		26,162		26,162	(711)		188,864
ACES Program	50,890		8,066		8,066	(213)	(2,281)	56,462
Honor Education - Class of '75	353,369		56,574		56,574	(1,537)		408,406
Roslyn Schulte Character/Leadership	89,380	1,766	14,372		16,138	(396)		105,122
Class of '80 Excellence in Ethics	136,191		21,804		21,804	(592)		157,403
Joseph D. Helton Memorial Award	7,611		1,218		1,218	(33)		8,796
O'Malley Award	33,257		5,324		5,324	(145)		38,436
Character - AOG	140,878		22,555		22,555	(613)		162,820
Class of '80 Oral History/Cadet CLD Fund	224,324		35,914		35,914	(976)		259,262
Chuck Bush Memorial Fund	6,537		1,047		1,047	(28)		7,556
AOG Class of 2023 Legacy Program	34,262		5,485		5,485	(149)		39,598
CGA-Coleman			3,330		3,330	(3,330)		
AOG Heritage Initiatives & Preservation Fund	192,300	1,000	31,844		32,844	(42,298)	(7,113)	175,733
Unrestricted pledges receivable, net	602,670						(602,670)	
Beneficial Interest in Moller Trust	54,128,218			\$ 6,505,691	6,505,691			60,633,909
Total	\$ 64,133,071	\$ 16,867	\$ 1,927,013	\$ 6,505,691	\$ 8,449,571	\$ (184,293)	\$ (1,936,568)	\$ 70,461,781

(Concluded)

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**SCHEDULE OF FUNDS WITH DONOR RESTRICTIONS – RESTRICTED ENDOWMENT
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	Beginning Balance	Contributions and Reclassifications	Investment Earnings	Expenses and Transfers	Grants and Allocations	Ending Balance	Portion to be Held in Perpetuity
General Ira C. Eaker Endowment for Defense Policy Lecture Series	\$ 105,579		\$ 16,903	\$ (919)		\$ 121,563	\$ 66,709
Frank E. & H. E. Hedrick Endowment for Cadet and Faculty Enrichment	221,900		35,526	(965)		256,461	151,524
Dr. Henry Kissinger Endowment for National Security Studies	35,370		5,663	(154)		40,879	20,058
John K. Gerhart Scholarship for French Study	465,715		72,677	(1,975)	\$ (11,763)	524,654	278,658
Donald R. Backlund Endowment for USAFA Military Symposium	19,968		3,197	(87)		23,078	11,725
Roger Stringer Award for Outstanding Cadet in Intercollegiate Speech	20,857		3,268	(88)	(600)	23,437	11,550
Henry S. Walker Endowment for POW Museum	46,344		7,420	(202)		53,562	13,695
Col. Franklin C. Wolfe Humanities Scholarship	56,109		8,772	(234)	(2,537)	62,110	43,511
WWI Overseas Flyers - American Aviation in WWI	53,810		8,615	(234)		62,191	13,957
Cadet Leadership Enrichment	235,727		37,740	(1,026)		272,441	145,853
A.J. Mione Cadet Award for Outstanding Physics Research	38,273		6,127	(167)		44,233	19,435
Graduate Dependent Scholarship	95,025	\$ 1,000	14,899	(409)		110,515	96,103
Joseph A. Reich, Sr. Lecture Series	128,348		20,548	(558)		148,338	91,557
305th Bombardment Group Memorial Association - Leadership Education	157,633		25,237	(686)		182,184	75,020
Richard Lawson - Award for Outstanding Cadet in Communications	280,762		44,507	(1,201)	(5,063)	319,005	218,000
Jerry C. Lindh - Cadet Honor Awards	18,408		2,947	(80)		21,275	8,898
Ross A. LaTorra - Men's Rugby	15,440		2,472	(67)		17,845	11,053
Computer Science Department Awards	11,435		1,769	(48)	(517)	12,639	8,338
Warren Sneed - Wings of Blue Jump Team	38,334		6,137	(167)		44,304	28,092
General Kenneth L. Tallman - Liaison Officer Service Awards	11,243		1,663	(149)	(374)	12,383	12,691
General & Mrs. L.I. Davis - Astronautics Community Projects	53,968		8,328	(226)		62,070	32,676
Graduate and Non-Graduate Awards	91,795		14,470	(391)	(1,800)	104,074	57,084
Laura A. Piper - Squadron Award	2,494		659	(18)		3,135	2,235
Class of '62 - Academy and AOG Projects	39,739		6,082	(168)		45,653	24,470
Robert B. Spear - Men's Basketball Player Award	17,652		3,062	(83)		20,631	8,535
William R. Grace - Maintenance of the Sand Volleyball Court	42,325	500	4,747	(115)	(16,986)	30,471	21,241
William F. Goodner - Biology Teaching Excellence	18,015		2,860	(78)		20,797	9,805
Pace Weber - Outstanding Men's Lacrosse Player Award	8,847		1,440	(39)		10,248	4,900
Kenneth Thiele - Graduate History Scholarship	28,602		4,579	(124)		33,057	13,628
William Heiser - Senior Faculty Teaching Award	31,489		5,041	(137)		36,393	20,000
Q. C. Snyder - Management Department Support	3,874		620	(17)		4,477	2,700
Richard Buschmann - Graduate Dependent Scholarship	14,566		2,280	(61)	(500)	16,285	10,345
Class of '74 - Award for Character Development	32,156		5,148	(140)		37,164	21,500
Class of '59 - NCLS Keynote Speaker	133,640		21,416	(581)		154,475	101,000
Powell Family Endowment	13,631		2,182	(59)		15,754	10,000
Tober Family - Astronautics Programs	367,593		58,851	(1,599)		424,845	238,615
Peter Brown - Summer Research Institute	24,061		3,852	(105)		27,808	15,000

(Continued)

**ASSOCIATION OF GRADUATES OF
THE UNITED STATES AIR FORCE ACADEMY**

**SCHEDULE OF FUNDS WITH DONOR RESTRICTIONS – RESTRICTED ENDOWMENT
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2020**

	<u>Beginning Balance</u>	<u>Contributions and Reclassifications</u>	<u>Investment Earnings</u>	<u>Expenses and Transfers</u>	<u>Grants and Allocations</u>	<u>Ending Balance</u>	<u>Portion to be Held in Perpetuity</u>
Harold Gilbert Character/Leadership Endowment	176,546		28,123	(764)		203,905	124,328
Building Operations and Maintenance	2,221,299		355,630	(89,094)		2,487,835	2,167,520
Long Blue Line Endowment	381,634	68,866	12,123			462,623	430,564
Total	<u>\$ 5,760,206</u>	<u>\$ 70,366</u>	<u>\$ 867,580</u>	<u>\$ (103,215)</u>	<u>\$ (40,140)</u>	<u>\$ 6,554,797</u>	<u>\$ 4,642,573</u>

(Concluded)