ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Statement of Financial Position

As of June 30,
(Unaudited)

Assets		2014	2013
Cash and Cash Equivalents		$ 2,250,391	$ 2,683,649
Merchandise Inventory		132,656	159,357
Pledges and Accounts Receivable	332,727		
Less: Discounts and Allowances for Uncollectible	(12,510)	320,217	299,157
Prepaid Expenses		64,790	62,229
Total Current Assets		2,768,054	3,204,392
Investments		36,186,805	28,661,700
Construction in Progress		128,000	179,044
Fixed Assets	10,381,465		
Less: Accumulated Depreciation and Amortization	(6,016,572)	4,364,893	4,349,911
Other Assets		250,493	192,387
Total Assets		$ 43,698,245	$ 36,587,434
Liabilities:			
Accounts and Other Payables		$ 235,972	$ 286,066
Agency Deposits		1,115,373	950,023
Deferred Income and Unearned Life Memberships		8,233,061	7,749,854
Other Liabilities		250,493	192,387
Total Liabilities		9,834,899	9,178,330
Net Assets:			
Unrestricted – AOG Operating Reserve		1,281,515	1,063,380
Unrestricted		12,324,323	10,059,189
Temporarily Restricted		14,930,869	12,139,378
Permanently Restricted		5,326,639	4,147,157
Total Liabilities and Net Assets		$ 43,698.245	$ 36,587,434

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Operating Statement of Activities

For the Fiscal Period Ended June 30, 2014
(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	$ 422,218	118,088	$ 304,130	$ 159,454
Membership Dues	718,294	693,663	24,631	626,436
Merchandising	580,617	398,257	182,360	444,450
Member Services	18,845	13,306	5,539	15,935
Advertising and Sponsorships	340,709	479,059	(138,350)	304,365
Reunion Services	219,252	189,903	29,349	175,741
Administration Fees	34,874	63,886	(29,012)	31,275
Conferences	267,455	265,000	2,455	253,452
Royalties	467,503	460,860	6,643	395,294
Football Tickets and Tailgates	47,430	53,962	(6,532)	49,483
Activities and Social Events	145,017	134,370	10,647	122,947
Miscellaneous Income	(666)	969	(1,635)	6,442
Subsidy from Endowment	644,998	600,000	44,998	673,278
Transfers	91,625	-	91,625	138,489
Total Revenues	3,998,171	3,471,323	526,848	3,397,041
Operating Expenses				
Salaries and Wages	1,954,179	1,916,425	37,754	1,877,210
Payroll Taxes	142,552	152,608	(10,056)	137,826
Benefits	190,122	198,776	(8,654)	188,430
Grants from Unrestricted Funds	39,025	35,654	3,371	51,393
Board Governance Costs	85,860	137,405	(51,545)	96,961
Professional Services	139,887	112,647	27,240	76,981
Professional Printing	239,918	250,958	(11,040)	214,039
Postage and Shipping	110,438	123,892	(13,454)	103,571
Merchandise Cost of Sales	367,157	277,676	89,481	279,870
Reunion Merchandise Cost of Sales	6,741	20,183	(13,442)	11,905
Insurance and Bonding	38,575	41,826	(3,251)	40,154
Employee Travel and Meals	72,411	86,329	(13,918)	80,082
Social Events and Meetings	162,801	163,584	(783)	146,753
Office Supplies	35,423	35,604	(181)	28,096
Advertising and Corporate Promotion	111,604	104,616	6,988	88,411
Office Expenses	16,368	(8,881)	25,249	4,318
Bad Debt Expense	-	-	-	-
Employee Training and Education	5,353	13,825	(8,472)	9,365
Facilities Expenses	246,308	222,992	23,316	220,705
Depreciation and Amortization	366,080	375,350	(9,270)	338,171
Total Operating Expenses	4,330,802	4,261,469	69,333	3,994,241
OPERATING SURPLUS/(DEFICIT)	(332,631)	(790,146)	457,515	(597,200)
Other Income and Deductions				
Investment Income – Life Memberships	1,121,225	453,499	667,726	1,150,873
Investment Income – Operations	1,854,770	606,079	1,248,691	1,424,546
Total Other Income and Deductions	2,975,995	1,059,578	1,916,417	2,575,419
NET SURPLUS/(DEFICIT)	$ 2,643,364	$ 269,432	$ 2,373,932	$ 1,978,219

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Operating Statement of Cash Flows

For the Fiscal Period Ended June 30,
(Unaudited)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus/(deficit) for the period	$ 2,643,363	$ 1,978,219
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	366,080	338,171
Realized/unrealized (gains) losses on investments	(4,277,399)	(3,887,707)
Changes in operating assets and liabilities:		
Net transfers between unrestricted and restricted funds	4,522,954	(1,211,182)
Accounts receivable	90,702	10,220
Contributions receivable, net	20,493	51,267
Inventory and prepaid expenses	(21,781)	(6,384)
Accounts payable and accrued expenses	(52,770)	67,368
Construction-in-progress and other assets	105,066	(202,950)
Deferred revenue	16,057	7,701
Other liabilities	58,106	58,886
Net cash provided by (used in) operating activities	3,470,871	(2,796,391)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(8,812,565)	(4,259,453)
Proceeds from the sale of investments	6,052,128	6,178,134
Purchases of property and equipment	(126,434)	(120,602)
Net cash (used in) provided by investing activities	(2,886,871)	1,798,079
Net increase (decrease) in cash and cash equivalents	**584,000**	**(998,312)**
Cash and cash equivalents, beginning of year	**1,666,391**	**3,681,961**
Cash and cash equivalents at June 30,	**$ 2,250,391**	**$ 2,683,649**

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Funds Held in Short-term Accounts

For the Fiscal Period Ended June 30, 2014
(Unaudited)

	Actual	Percentage
Petty Cash	$ 600	0.03%
Operating Funds in Bank	1,577,395	70.09%
Investments in Money Funds	672,396	29.88%
TOTAL	$ 2,250,391	100.00%

Schedule of Investments

For the Fiscal Period Ended May 31,
(Unaudited)

	2014	%	Target	Max
U. S. Equities (value and growth)	$ 13,624,077	39.16%	33.0%	60.0%
International Equities	8,353,964	24.00%	32.0%	50.0%
Fixed Income	7,189,534	20.66%	20.0%	30.0%
Real Estate	374,528	1.08%	5.0%	15.0%
Alternatives	5,252,663	15.10%	10.0%	20.0%
Invested Assets	34,794,766	100.00%	100.00%	
Vanguard AOG Reserve	1,392,039			
TOTAL	$ 36,186,805			

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Schedule of Capital Additions

For the Fiscal Period Ended June 30, 2014
(Unaudited)

	Actual	Budget
Building and Grounds		$ 42,270
Landscaping	$ 16,495	12,200
Office Equipment	15,426	9,130
Vehicles	-	-
Furniture & Fixtures	70,870	38,200
Computer Equipment	23,643	58,000
Sabers	-	-
Maintenance Equipment	-	-
Other *(use of IBM credits)*	-	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	-	27,500
TOTAL	$ 126,434	$ 187,300

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Operating Statement of Activities - Cash Basis

For the Fiscal Period Ended June 30, 2014

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	$ (29,928)	$ 764,230	$ (794,158)	$ 762,112
Donations and Contributions	392,410	97,688	294,722	127,934
Membership Dues	538,262	498,663	39,599	448,492
Merchandising	571,857	398,257	173,600	436,591
Member Services	18,845	13,306	5,539	15,935
Advertising and Sponsorships	356,886	479,059	(122,173)	303,915
Reunion Services	219,251	189,903	29,348	175,741
Administration Fees	34,874	63,886	(29,012)	31,275
Conferences	267,455	265,000	2,455	253,452
Royalties	425,503	460,860	(35,357)	395,294
Football Tickets and Tailgates	47,430	53,962	(6,532)	49,323
Activities and Social Events	139,766	134,370	5,396	113,882
Miscellaneous Income	(715)	969	(1,684)	6,373
Subsidy from Endowment	670,288	600,000	70,288	660,537
Transfers	35,561	-	35,561	138,489
Total Revenues	3,687,745	4,020,153	(332,408)	3,919,345
Operating Expenses				
Salaries and Wages	1,915,900	1,916,425	(525)	1,871,568
Payroll Taxes	142,552	152,608	(10,056)	137,826
Benefits	189,515	198,776	(9,261)	180,549
Grants from Unrestricted Funds	27,125	15,254	11,871	(11,127)
Board Governance Costs	85,860	137,405	(51,545)	94,113
Professional Services	129,381	112,647	16,734	76,981
Professional Printing	239,660	250,958	(11,298)	257,109
Postage and Shipping	114,640	123,892	(9,252)	108,580
Merchandise Purchases	366,117	242,825	123,292	310,780
Reunion Merchandise Purchases	6,741	20,183	(13,442)	11,905
Insurance and Bonding	32,760	43,645	(10,885)	41,567
Employee Travel and Meals	74,011	86,329	(12,318)	80,082
Social Events and Meetings	163,801	163,584	217	148,571
Office Supplies	35,290	35,604	(314)	28,096
Advertising and Corporate Promotion	103,675	104,616	(941)	82,118
Office Expenses	16,690	(8,881)	25,571	9,567
Employee Training and Education	5,353	13,825	(8,472)	9,126
Facilities Expenses	240,882	222,992	17,890	199,929
Total Operating Expenses	3,889,953	3,832,687	57,266	3,637,340
OPERATING SURPLUS/(DEFICIT)	**(202,208)**	**187,466**	**(389,674)**	**282,005**
Capital Purchases	**126,434**	**187,300**	**(60,866)**	**120,602**
NET SURPLUS/(DEFICIT)	**$ (328,642)**	**$ 166**	**$ (328,808)**	**$ 161,403**

ASSOCIATION OF GRADUATES
UNITED STATES AIR FORCE ACADEMY

Unaudited Financial Statements
For the Fiscal Period Ended June 30, 2014

Management Discussion and Analysis

Executive Summary

Fiscal year 2014 was one of records. We set out at the beginning of the year to grow our revenue stream by 13.1% over the 2013 budget. Instead we exceeded the current budget by about 15.2% and 2013 final results by 17.7%. Final operating revenue, after posting the second half administration fees and life membership amortization, will exceed $4 million for the first time since FY 2009, the last year the AOG actively did fundraising.

Membership dues have grown by more than 155% since 2010, and merchandise sales have more than doubled from $253,000 that year. There were four graduate membership campaigns held during the year, gaining an additional 144 life members. While advertising and sponsorship revenue fell short of the budget, it nonetheless was the highest it has been since at least 2009, as was royalty revenue, which was only $191,000 in 2009. Income from the rental of the facility also reached a new level this fiscal year, with at least 100 paid activities, exceeding the revenue target by almost 8%. Because we hit the FY 2015 chapter goal of 80 this year we have now increased the 2015 goal to 84. Reunion services revenue also grew by more than 20% to a near-record high, which was achieved in FY 2011 at $244,000.

Our communications group continues to receive accolades, winning a record eleven CASE award recognitions at the annual conference. Two staff members also made presentations at the conference.

Finally, our investments continued to perform well, reporting a 16.35% return (excluding real estate) through May, surpassing the balanced index return of 16.12%. When June results are posted we expect to have a net surplus from operations exceeding $3.0 million, the best results since at least FY 2009.

Financial Results

The enclosed **preliminary** financial results for the fiscal year through June 30, 2014 (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 June compared to the previous year, except cash and cash equivalents and investments have been restated by the reclassification of the Vanguard mutual funds to investments. The total assets of the organization were about $43.70 million, an increase of approximately $7.11 million [19.44%] from $36.59 million from the previous year as reported. The investment portfolio is shown with results through May and was up significantly [about $7.53 million] year-over-year from the 2013 value, representing a net 26.25% increase, including the reclassification. Cash and cash equivalents decreased only slightly, about $433,000 from the same period last year, but don't reflect a transfer of about $1.33 million to investments in June. Total net assets grew by approximately $6.45 million to $33.86 million, while the liabilities of the organization, primarily the life memberships and deferred revenue, increased by about $657,000 in total from the same period the previous year.

The Operating Statement of Activities shows preliminary operating results through June with approximately $3.998 million in operating revenues, and operating expenses of about $4.331 million. The result is an operating deficit of about $332,600, versus a budgeted deficit of $790,100. Allocated investment income of approximately $2.976 million through May reflects the much-better-than-expected return on the markets (approximately 16.35% for the fiscal year versus a budgeted 6.1% return) from all sectors of the portfolio except real estate. 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 $2.643 million in these preliminary statements. Note that investment returns in the prior year had not all been received and were posted through May 2013 only.

Revenues

- Insurance proceeds from the Francis Bennett estate, being allocated to the Long Blue Line Fund for operations at 25% of the gift, accounted mostly to the very significant budget overage in **donations and contributions** for operations. Also included was the AOG share of estate distributions of Robert Mazet III from the USAFA Endowment.
- **Membership dues** exceeded the fiscal year budget by approximately 3.5%. They consisted of $180,000 of recognized life memberships and more than $538,000 of new and continuing annual and class club memberships for the year. The final life membership recognition has not been posted as of this report.
- **Merchandise sales** for the fiscal year far exceeded the budget by almost 46% and included over $75,000 of sales of the "Year in the Blue" video. The continuing efforts to introduce new lines of merchandise, targeted promotions for cadet parents, grandparents, and even parents of infants, and sales aimed at specific Academy events and activities, paid great dividends.

- **Advertising and sponsorship revenue** ended the year well below budget, as anticipated early on, primarily from the open position dedicated to building a national marketing program not being filled permanently. Budgeted revenue generation was severely impacted for the year; however year-to-year advertising and sponsorship revenue was up 12%.
- **Reunion services revenue**, including reunion merchandise sales, showed an active participation by graduates through the reunion season, especially the classes of 1973 and 1963, which had active family involvement. Revenue in total exceeded the budget by approximately 15.5%.
- **Administration fees** for management of the portfolio representing endowments and quasi-endowments are shown for the December semi-annually charge to those funds; the semiannual posting for June will be completed after final investment returns are posted.
- **Conference** revenue shown is exclusively from the income allocated to the AOG from the Service Academy Career Conference (SACC) and is right in line with expectations.
- **Royalty income** was slightly above expectations, primarily from miscellaneous royalty programs. It also includes an accrual for royalties of about $42,000 that will be received in August from the sales of the hardcopy Register of Graduates. The hardcopy is printed only every four years.
- **Tailgate income and memorabilia sales** were severely impacted by the government shutdown for the Navy football tailgate and were significantly below the expectations for the Boise game as well.
- Special events, including rental of Doolittle Hall for outside activities such as grad and grad-spouse socials and retirement celebration ceremonies, contributed to the over-budget **activities and social events revenue,** which were about 7.9% higher than expected.
- The recognized **subsidy revenue** from the USAFA Endowment reflects the contributions from July through May for Air Force Academy Fund receipts, as well as an accrual of the June subsidy received in early July.
- **Transfers** from restricted funds to operations reflected the recoupment of restricted payments for the South East Asia and P.O.W. memorials.

<u>Expenses</u>

- Year-to-date **salaries and wages** are slightly (1.97%) higher than the budget, and include an accrual for the approved CEO bonus, plus extra (post-high school) temporary help for the WebGuy program, primarily Basic Cadet Training.
- **Payroll taxes** incurred and paid were below budget expectations for both Social Security and Medicare taxes, but are slightly offset by higher state unemployment taxes.
- Lower workers compensation premiums and 401k (safe harbor and matching) **benefits** paid, as well as a correction to the 457b match provision, resulted in total benefits ending the year approximately 4.4% below budget.
- **Grants from unrestricted funds** exceeded the year budget largely because of the 13 memorial display cabinets gifted to the Academy, as well as the squadron improvement gifts related to contest award wins from two squadrons.

- **Board governance costs** reported were well below the annual budget and reflected the costs of meetings and activities, as well as allocated salaries, payroll taxes and benefits of supporting staff.
- The budget for **professional services** included attorney fees as a contingency for unknown needs that did not materialize, as well as services for communication efforts that didn't happen. Actual expenditures included contracted facilities management of Doolittle Hall and grounds that was not anticipated when the budget was developed, as well as deposits for support of upcoming golf tournaments, that resulted in the over budget costs.
- **Professional printing** charges for *Checkpoints* magazine, the *Parent's Handbook*, and other publications and needs were about 4.4% below the budget.
- Actual expenditures for **postage and shipping** were below (10.9%) the fiscal year budget but don't include delivery of the *Parent's Handbook,* which occurred in July.
- The **cost of merchandise sold** reflects the FIFO inventory valuation method and tracked with the much higher volume of sales. There was a much better gross margin on sales (36.8%) than the budgeted 30%, helped significantly by sales of the "Year in the Blue" videos.
- **Reunion merchandise cost of sales** reflects the invoice cost for reunion caps, pins and wearable merchandise that the classes decided to buy through the AOG-preferred vendor for their scheduled reunions and reflected that class interest in reunion memorabilia was significantly below expectation for the reunions season.
- **Insurance and bonding** costs were aided by the much better than expected renewals in March, and ended the year below budget by approximately 7.8%.
- The costs incurred for **employee travel and meals** ended the year well below the budget in every category except mileage reimbursement, but lower especially for airfare, hotel accommodations, and meals and entertainment. Staff always looks to maximize cost savings whenever possible.
- Professional set up for the USAFA Founders' Day event is included in the **social events and meetings** expense category; total costs were right in line with the budget for the year.
- **Advertising and corporate promotion** expenses overage reflects the unbudgeted opportunity we took to procure AOG signage at the football stadium ($26,000), but were partially offset by lower promotion expenses primarily from events and royalty management.
- The costs captured in other **office expenses** included expenditures for professional photography services for Founders' Day, the online version of *Checkpoints*, and other communications vehicles (primarily video) that were not anticipated in the budget, and those primarily accounted for the higher than expected costs. Also contributing were credit card transaction fees associated with the larger membership signups.
- **Employee training and education** expenditures ended the year well below budget.
- **Facilities expenses** were substantially higher than the budget, especially for electricity utilities after Doolittle Hall switched to direct supply from Colorado Springs Utility, as well as unanticipated building repairs such as the chiller pump and motor bearings
- **Depreciation and amortization** recognized was about 2.5% lower than the budget because all approved capital equipment purchases weren't made, such as software

upgrades, Doolittle Hall window replacements, and event management software. Also, many of the approved capital purchases cost much less than expected.

Investment Income

The investment results allocated to AOG operations through May reflected market gains in all sectors except real estate. Net allocated gains were approximately $2.976 million, including investment interest and dividends of just over $234,700, net realized gains on liquidations and rebalancing redemptions of about $11,800, plus almost $2,734,000 of net unrealized market gains. Those were partially offset by allocated advisor management fees of about $4,500. About 64.7% of the entire portfolio investment results were allocated to AOG operations through May, 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 of about $584,000 from the beginning fiscal year balance, including cash changes from decreases in accounts and contributions receivable and construction-in-progress (phase 2 of the Southeast Asia Pavilion), and increases in payables, inventory and prepaid expenses.

Funds Held in Short-term Accounts

The supplemental information regarding cash and cash equivalent accounts showed operating funds of about $2.25 million, including the June Moller Trust distribution received. The report, however, does not yet show the transfer and investment of $1.329 million of that receipt in June, as investment transactions and results have yet to be posted for the month. Short-term accounts, which includes investable cash was about $672,400, which was likewise invested in June.

Schedule of Investments

Investment sector values through May were reflected in the supplemental schedule on page 4, and compares the actual allocation to the target percentage as provided for in the FMIP. There were net market gains in each sector except the real estate fund, which continued to lose value.

Schedule of Capital Additions

The schedule on page 5 showed capital purchases by the end of the year and included: the new graduate memorial display in Doolittle Hall; upgrades in the library lounge area; new boardroom chairs; several high quality Canon cameras for WebGuy activity; computers needed for operations; and additional paver bricks for installation around Doolittle Hall.

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 budget for operations only. For operating purposes, the statement

shows that the organization had a deficit of approximately $202,200 from operating functions and about a $328,600 net deficit after consideration for capital purchases. The cash-basis deficits were exclusively due to the fact that we have held the insurance proceeds from the Francis Bennett estate (unrestricted and restricted) and the Moller Trust distributions in cash through most of the year rather than selling investments to meet operating needs. Significant deviations not previously addressed in the GAAP explanations are described below.

Revenues

- **Investment income and distributions** reflected a net transfer out of operations of about $30,000 to build up the AOG reserve in the first quarter. As stated above, there were no sales of investments because of the large amount of restricted funds held during the year.
- Total **donations and contributions** largely consisted of the unrestricted allocation of the Bennett insurance proceeds and Mazet estate gifts of over $320,000 total to the Long Blue Line Fund for operations. The balance of the proceeds was allocated to the restricted AOG Long Blue Line Endowment fund, totaling more than $960,800.
- **Membership dues** payments received included about $85,500 in annual memberships, about $444,800 of class club memberships, and $7,900 in Parent Member Plus signups. The $180,000 of life membership revenue addressed in the GAAP explanations above was not actually received, again because we did not sell any investments during the year.
- **Subsidy transfers from the USAFA Endowment** are shown for June through May Air Force Academy Fund actual receipts allocated and transferred to the AOG, and several of those months exceeded the expected amounts, which are spread evenly over the year.
- All other revenue receipts have been addressed in the GAAP-basis discussion and are relevant to the cash-basis reporting.

Expenses

- **Merchandise purchases** on a cash basis represent actual non-inventory merchandise bought during the year, as well as inventory stocking and restocking of new and longstanding items. They included resupply of sabers; significant license plate frame purchases, restocking of sweatshirts, and the purchase of the “Year in the Blue” DVDs.
- The **insurance and bonding** payments were made for all renewed lines of coverage in March and show a significantly reduction in premiums from a change in carriers. The coverage lines are then amortized over twelve subsequent months after payment.
- **Advertising and corporate promotion** expenditures on a cash basis do not include the recognized value of give-away items that were not purchased during the fiscal year, whereas the GAAP-basis reporting reflected those values.
- **Facilities expenses** paid were lower than the GAAP-basis expenses because some utilities charges from DFAS were accrued but not yet paid through June. There is typically a cash-basis difference to GAAP-basis reporting.
- All other significant cost elements have been discussed in the previous accrual basis analysis and are relevant to cash basis reporting.