

Statement of Financial Position

As of June 30,
(Unaudited)

<u>Assets</u>	2011	2010
Cash and Cash Equivalents	\$ 2,057,607	\$ 2,026,983
Merchandise Inventory	71,417	61,597
Pledges and Accounts Receivable	1,001,630	
Less: Discounts and Allowances for Uncollectible	<u>(216,407)</u>	1,508,910
Prepaid Expenses	103,373	93,680
<i>Total Current Assets</i>	<u>3,017,620</u>	<u>3,691,170</u>
Investments	29,077,835	25,252,597
Construction in Progress	741,794	810,316
Fixed Assets	9,555,563	
Less: Accumulated Depreciation and Amortization	<u>(4,993,035)</u>	3,812,393
Other Assets	103,848	61,678
Total Assets	<u>\$ 37,503,625</u>	<u>\$ 33,628,154</u>
<u>Liabilities:</u>		
Accounts and Other Payables	\$ 205,226	\$ 241,978
Agency Deposits	2,265,472	2,032,271
Deferred Income and Unearned Life Memberships	6,969,187	7,404,782
Other Liabilities	103,848	61,678
<i>Total Liabilities</i>	<u>9,543,733</u>	<u>9,740,709</u>
<u>Net Assets:</u>		
Unrestricted – AOG Reserve	333,364	333,364
Unrestricted	10,109,126	7,365,073
Temporarily Restricted	13,394,515	12,071,001
Permanently Restricted	4,122,887	4,118,007
Total Liabilities and Net Assets	<u>\$ 37,503,625</u>	<u>\$ 33,628,154</u>

Operating Statement of Activities

 For the Fiscal Year Ended June 30, 2011

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Donations and Contributions	\$ 231,688	\$ 35,925	\$ 195,763	\$ 1,198,865
Membership Dues	320,981	455,024	(134,043)	452,246
Merchandising	244,980	188,154	56,826	253,468
Member Services	14,139	14,360	(221)	18,961
Advertising and Sponsorships	316,269	287,700	28,569	234,555
Reunion Services	213,403	155,000	58,403	146,850
Administration Fees	34,227	67,890	(33,663)	48,677
Conferences	197,790	177,600	20,190	145,725
Royalties	292,251	299,007	(6,756)	266,562
Football Tickets and Tailgates	36,516	49,438	(12,922)	32,171
Activities and Social Events	140,968	97,784	43,184	149,171
Miscellaneous Income	27,909	5,265	22,644	31,446
Subsidy from Endowment	148,961	600,000	(451,039)	-
Transfers	926,199	265,020	661,179	364,546
Total Revenues	<u>3,146,281</u>	<u>2,698,167</u>	<u>448,114</u>	<u>3,343,243</u>
Operating Expenses				
Salaries and Wages	1,789,926	1,731,694	58,232	1,802,737
Payroll Taxes	141,383	136,885	4,498	135,225
Benefits	140,323	158,560	(18,237)	134,591
Grants from Unrestricted Funds	14,382	49,550	(35,168)	274,566
Professional Services	146,605	101,450	45,155	181,077
Professional Printing	220,903	206,230	14,673	248,260
Postage and Shipping	101,293	128,819	(27,526)	154,351
Merchandise Cost of Sales	170,674	135,857	34,817	160,219
Reunion Merchandise Cost of Sales	31,566	-	31,566	147
Insurance and Bonding	39,218	38,244	974	41,485
Employee Travel and Meals	54,048	102,839	(48,791)	51,608
Social Events and Meetings	99,440	143,750	(44,310)	144,522
Office Supplies	28,627	38,245	(9,618)	33,699
Donor Recognition Expenses	-	-	-	4,385
Advertising and Corporate Promotion	71,916	70,208	1,708	51,692
Office Expenses	23,038	35,333	(12,295)	86,139
Bad Debt Expense	13,250	150,000	(136,750)	586,065
Employee Training and Education	7,284	23,950	(16,666)	8,322
Facilities Expenses	196,815	185,533	11,282	186,739
Depreciation and Amortization	327,422	331,380	(3,958)	318,171
Total Operating Expenses	<u>3,618,113</u>	<u>3,768,527</u>	<u>(150,414)</u>	<u>4,604,000</u>
OPERATING SURPLUS/(DEFICIT)	(471,832)	(1,070,360)	598,528	(1,260,757)
Other Income and Deductions				
Investment Income – Life Memberships	1,268,604	475,380	793,224	575,584
Investment Income – Operations	1,812,004	679,006	1,132,998	988,609
Total Other Income and Deductions	<u>3,080,608</u>	<u>1,154,386</u>	<u>1,926,222</u>	<u>1,564,193</u>
NET SURPLUS/(DEFICIT)	\$ 2,608,776	\$ 84,026	\$ 2,524,750	\$ 303,436

Operating Statement of Cash Flows
 For the Fiscal Year Ended June 30,

	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net surplus/(deficit) for the period	\$ 2,608,776	\$ 303,436
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Non-cash (income) expenses:		
Depreciation	327,422	318,171
Realized/unrealized (gains) losses on investments	(4,995,855)	(2,052,147)
Changes in operating assets and liabilities:		
Net transfers between unrestricted and restricted funds	1,564,282	(2,216,054)
Accounts receivable	(47,000)	(61,726)
Contributions receivable, net	762,919	1,618,316
Inventory and prepaid expenses	(11,744)	(21,009)
Accounts payable and accrued expenses	(36,752)	53,770
Construction-in-progress and other assets	26,352	(171,739)
Deferred revenue	(435,595)	548,565
Other liabilities	42,169	17,868
Net cash provided by (used in) operating activities	(195,026)	(1,662,549)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(4,394,843)	(3,715,683)
Proceeds from the sale of investments	5,698,050	2,876,835
Purchases of property and equipment	(1,077,557)	(83,677)
Net cash provided by (used in) investing activities	225,650	(922,525)
Net increase (decrease) in cash and cash equivalents	30,624	(2,585,074)
Cash and cash equivalents, beginning of year	2,026,983	4,612,057
Cash and cash equivalents at June 30,	\$ 2,057,607	\$ 2,026,983

Funds Held in Short-term Accounts

For the Fiscal Year June 30, 2011

(Unaudited)

	Actual	Percentage
Petty Cash	\$ 550	0.03%
Operating Funds in Bank	1,445,137	70.23%
Investments in Money Funds	100,600	4.89%
AOG Reserve Fund*	511,320	24.85%
TOTAL	\$ 2,057,607	100.00%

* Un-posted value of reserve at 6/30/11 is \$759,465

Schedule of Investments

For the Eleven Month Period Ended May 31, 2011

(Unaudited)

	Actual	Percentage	Target
U. S. Equities (value and growth)	\$ 9,223,253	31.72%	33.0%
International Equities	8,716,650	29.98%	32.0%
Fixed Income	4,923,643	16.93%	20.0%
Real Estate	886,642	3.05%	5.0%
Alternatives	4,873,958	16.76%	10.0%
Cash and unsold stock gifts	453,689	1.56%	-
TOTAL	\$ 29,077,835	100.00%	100.00%

Schedule of Capital Additions
 For the Fiscal Year Ended June 30, 2011
 (Unaudited)

	Actual	Budget
Building and Grounds <i>(incl. SEA Pavilion)</i>	\$ 993,883	\$ 26,360
Landscaping	19,099	12,000
Office Equipment	7,257	-
Vehicles	-	-
Furniture & Fixtures	5,288	-
Computer Equipment	42,904	45,250
Sabers	-	-
Maintenance Equipment	18,708	20,200
Other <i>(use of IBM credits)</i>	(10,989)	-
Capitalized Lease-Furniture	-	-
Capitalized Software Costs	1,407	5,500
	\$ 1,077,557	\$ 109,310
TOTAL	\$ 1,077,557	\$ 109,310

Operating Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2011

(Unaudited)

	YTD Actual	YTD Budget	Variance	PY YTD
Revenues				
Investment Income and Distributions	\$ 811,207	\$ 620,776	\$ 190,431	\$ 683,285
Donations and Contributions	488,132	35,925	452,207	1,039,889
Membership Dues	343,296	455,024	(111,728)	316,975
Merchandising	241,797	188,154	53,643	250,283
Member Services	14,139	14,360	(221)	18,961
Advertising and Sponsorships	156,269	287,700	(131,431)	394,005
Reunion Services	213,403	155,000	58,403	162,850
Administration Fees	34,227	67,890	(33,663)	35,520
Conferences	197,790	177,600	20,190	123,049
Royalties	186,744	349,007	(162,263)	399,239
Football Tickets and Tailgates	36,516	49,438	(12,922)	32,171
Activities and Social Events	135,318	97,784	37,534	133,690
Miscellaneous Income	28,647	5,265	23,382	23,866
Subsidy from Endowment	116,745	600,000	(483,255)	-
Transfers	926,199	265,020	661,179	119,289
Total Revenues	3,930,429	3,368,943	561,486	3,733,072
Operating Expenses				
Salaries and Wages	1,789,926	1,731,694	58,232	1,804,063
Payroll Taxes	141,383	136,885	4,498	135,225
Benefits	140,410	158,560	(18,150)	134,583
Grants from Unrestricted Funds	14,382	9,550	4,832	263,563
Professional Services	139,652	101,450	38,202	167,982
Professional Printing	236,630	206,230	30,400	232,736
Postage and Shipping	117,006	128,819	(11,813)	167,242
Merchandise Purchases	193,542	132,000	61,542	199,376
Reunion Merchandise Purchases	31,566	-	31,566	-
Insurance and Bonding	41,102	38,885	2,217	43,858
Employee Travel and Meals	54,048	102,839	(48,791)	51,973
Social Events and Meetings	100,180	143,750	(43,570)	124,302
Office Supplies	28,884	38,245	(9,361)	33,265
Donor Recognition Expenses	-	-	-	4,385
Advertising and Corporate Promotion	68,671	70,208	(1,537)	42,499
Office Expenses	21,386	35,333	(13,947)	52,608
Employee Training and Education	7,284	23,950	(16,666)	8,322
Facilities Expenses	176,325	185,533	(9,208)	195,244
Total Operating Expenses	3,302,377	3,243,931	58,446	3,661,226
OPERATING SURPLUS/(DEFICIT)	628,052	125,012	503,040	71,846
Capital Purchases	1,077,557	109,310	968,247	83,677
NET SURPLUS/(DEFICIT)	\$ (449,505)	\$ 15,702	\$ (465,207)	\$ (11,831)

Unaudited Financial Statements
For the Fiscal Year Ended June 30, 2011

Management Discussion and Analysis

Financial Results

The enclosed **preliminary** financial results through June 30, 2011 (pages 1 through 5) are prepared in accordance with generally accepted accounting principles (GAAP). Page 6 represents a Cash Basis Operating Statement as additional information. Page 1 shows the financial position of the AOG operations as of the end of the fiscal year compared to the same time the previous year. The total assets of the organization increased by approximately \$3.88 million from the previous year-end, primarily from investment earnings on the organization's portfolio and addition of the Southeast Asia Memorial Pavilion to fixed assets. The Operating Statement of Activities shows preliminary operating results for the fiscal year of \$3.15 million in operating revenues and operating expenses of about \$3.62 million. The result is a lower than expected operating deficit of about \$472,000. Allocated investment income of approximately \$3,081,000 reflects the portion of the total fiscal year net increase in the investment portfolio through May that has been allocated to the operations of the AOG. The remaining returns have been allocated to temporarily restricted funds and the temporary portion of endowments in accordance with the Financial Management and Investment Policy (FMIP). June investment returns have not all been received and posted. There was a net GAAP-basis surplus of approximately \$2.609 million for these preliminary statements.

Revenues

- **Donations and contributions** of \$232,000 through June far exceed the conservative budget, and include about \$1,600 in new pledges, \$201,000 in one-time and matching gifts, and gifts-in-kind of \$29,000. The annual budget anticipated almost all new donations going to the USAFA Endowment.
- **Membership dues** for the year were approximately \$321,000, which consists of \$180,000 of recognized life memberships and \$141,000 of new annual memberships for the year. Annual and 4-year memberships were only about half of the budgeted amount due to the transition to a new class club program beginning in the next fiscal year, thereby affecting this year's fiscal activity.
- **Merchandise sales** of approximately \$245,000 during the year greatly surpassed the budget, primarily due to the introduction of new lines of merchandise. The sale of reunion merchandise is included in reunion services revenue.
- **Advertising and sponsorship revenue** for the fiscal year surpassed the budget by more than \$28,000. The results reflect a continued pickup in national and local advertising.
- **Reunion services revenue**, including merchandise sales, shows all of the reunion services for the fiscal year and also includes both administration fees

and class activities. They far exceed the conservative budget because reunion activities are very difficult to anticipate when the budget is prepared due to unknown participation rates for each reunion.

- **Conference** revenue shown is exclusively from the income allocated to the AOG from the SACC and beat the budget by approximately \$20,000. The increase was due to more corporations and more registrants attending the meetings than expected.
- **Royalty income**, which includes USAA's affinity payment of about \$106,000, is slightly (2.3%) below the budget due to cancellation of the PrintRoom posting by the Academy for *WebGuy* photos.
- **Tailgate income and memorabilia sales** were lower than budget for the year due to the cancellation of the Oklahoma game tailgate from lower than expected participation.
- Special events such as the *WebGuy* social, wine and scotch tasting, and the night at the Colorado Springs Sky Sox baseball game contributed to the higher **activities and events revenue** than was expected. The revenue also reflects bar income from past events that will no longer occur now that all bar services are contracted directly through the Falcon Club.
- There was increase in the **subsidy revenue** from the USAFA Endowment during the fourth quarter, as AOG Annual Fund receipts from outstanding pledges kept declining and the Endowment's Air Force Academy receipts continued to grow, as planned.
- **Miscellaneous income** includes multimedia sales and the return from prior years of unused restricted and unrestricted gifts by the Academy that cannot be specifically identified to the original gift.
- **Transfer income** represents funds transferred to the AOG from the Class of '70 for the construction of the Southeast Asia Pavilion, Class of '74 and '75 sponsorships of the *Contrails* book for the incoming 2014 and 2015 classes, respectively, and pledge payments received related to the Memorial Pavilion. The Southeast Asia Pavilion was completed during the second fiscal quarter and has been transferred as an asset of the AOG. Also reflected is the board-approved transfer out of \$100,000 to the new restricted quasi-endowment established to maintain heritage projects on the leased AOG property.

Expenses

- **Salaries and wages** slightly exceeded the budget by approximately \$58,000, primarily due to the balance of the relocation allowance paid to the CEO in the fourth quarter.
- Year-to-date **benefits** incurred are lower than the budget because the final premiums for medical, dental and other benefits were lower than the budget percentage increase anticipated.
- For the fiscal year, **grants from unrestricted funds** reflect only gifts to the Soaring Society, the Academy awards ceremony, and memorial cadet awards, as well as graduate dependent scholarship payments that exceeded the allotted funding from the GDS true endowment

- **Professional services** include unbudgeted contract and conversion fees for two new information technology and website specialists who later became employees. That is partially offset by there being no expended funds for contingencies, as was budgeted.
- **Professional printing** charges are above the approved budget because higher paper costs have increased the printing of *Checkpoints* and other hard copy material.
- Actual expenditures for **postage and shipping** ended the year substantially below the budget because cost for mailing the *Checkpoints* magazine didn't increase as much as was expected.
- The **cost of merchandise** sold reflects the FIFO inventory valuation method and reflects expectations and higher merchandise sales.
- **Reunion merchandise cost of sales** is being reported separately now and reflects the invoice cost for reunion caps, pins and wearable merchandise that the classes decide to buy through the AOG-preferred vendor for their scheduled reunion.
- Most elements of **employee travel and meals** expenses (airfare, hotel, meals, and other transportation) were below the annual budget, primarily due to cost containment efforts from the staff to significantly lower the expenses for chapter development and support, especially the cost of airfare.
- Savings on the cost of catering helped keep the **meeting expenses for social events** for the year approximately \$44,000 under the budget and because the large non-conference tailgate planned for Oklahoma in October was cancelled.
- Total **office supplies expenses** were about 25% below what was anticipated in the budget because replacement of computer supplies such as toners, backup CDs, and other supplies have been lighter than expected.
- The budget for **other office expenses** included expected costs for additional web hosting for *WebGuy* and video presentations, but the actual incurred costs were much less. The total costs incurred are offset by the receipt of rent and services paid by the Endowment to the AOG.
- **Bad debts expenses** have not yet been adjusted for allowances on the year-end outstanding pledges receivable but do reflect direct write off of uncollectible accounts.
- **Employee training and education** expenditures are significantly below the budget because employees have not been able to attend training that was planned but could not be scheduled due to workload.
- The costs for maintaining the **facilities** of Doolittle Hall are about 6.1% above budget due to some unanticipated repairs that were required earlier in the year, including the fire protection system and a leaking hot water pipe.
- **Depreciation and amortization** charges were right in line with the budget, even though some expected capital improvement projects did not take place or were deferred to next year's budget.
- Most of the remaining cost elements are in line with or below the annual budget.

Investment Income

The investment results allocated to AOG operations through May [June results had not all been received or posted at this reporting] were approximately \$3.08 million and included interest and dividends of about \$192,000, realized gains on the sale of investments of approximately \$99,000, and unrealized market gains on the investments of about \$2,810,000; there was also offsetting allocated advisor management fees of about \$20,600. About 58% of the entire portfolio investment results were allocated to AOG operations for the year based on the guidelines of the FMIP.

Operating Statement of Cash Flows

The statement of cash flows shown on page 3 shows that there was a net increase in cash and cash equivalent funds from the beginning fiscal year balance of only about \$31,000. At June 30 there was a balance of approximately \$2,058,000.

Funds Held in Short-term Accounts

The supplemental information regarding short-term accounts identifies operating funds of \$1.45 million, and included the late June distribution from the Moller Trust, which was subsequently transferred to the Academy in early July. A fund set up to secure the allocated AOG reserve was valued at over \$511,000 at the end of May. An additional \$250,000 of shares was purchased for the reserve in June. Short-term funds also include investments in money market funds of about \$101,000.

Schedule of Investments

Investment balances through May are reflected in this supplemental schedule on page 4, and compares the actual allocation to the target percentage as provided for in the FMIP.

Schedule of Capital Additions

The schedule on page 5 includes a new category of capital assets – maintenance equipment – that shows purchase of the much needed all-terrain vehicle and plow that have been approved in each annual budget for several years, but which was finally purchased from funds of the newly created and approved Heritage Preservation Fund. Other equipment is reflected and will greatly enhance the ability to maintain the Heritage Trail and area 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 year-to-date budget for operations. For operating purposes, the statement shows that the organization had a surplus of approximately

\$628,000 from operating funds, but brought in about \$450,000 less than was needed to fund the business cycle of the AOG through the fiscal year after consideration of capital purchases, thereby relying on beginning-of-year operating funds.

Revenues

- **Investment income and distributions** include distributions of Caxton Associates hedge fund liquidations for the year totaling approximately \$271,000, proceeds from the sale and rebalancing of funds of \$1.162 million, plus bank interest. The total is reduced by approximately \$693,000 that reflects funds for the construction of the Southeast Asia Memorial Pavilion that are reflected in the **transfer** revenue category and the \$180,000 of amortized life memberships.
- Total **donations and contributions** of \$488,000 include cash one-time gifts, pledge payments, and matching gift payments, and far exceeded the budget estimate which anticipated only minor unrestricted gifts coming to the AOG.
- **Membership dues** received and recognized for the year were approximately 25% below the budget as annual memberships were heavily impacted by the newly introduced programs and focus to grow life memberships. The year-to-date amount includes the \$180,000 of amortized life membership funds.
- **Merchandise sales**, as expected, continued to increase for the fourth quarter as new lines of merchandise were offered.
- As previously reported, **advertising and sponsorship revenue**, on a cash receipts basis, was well below the budget because the USAA money was actually received at the end of the last fiscal year. The FY 2012 USAA payments were correctly received in July, so they did not affect this reporting.
- The **reunion services fees**, including activities and merchandise revenue, exceeds the budget primarily because the reunion merchandise sales were not anticipated and the conservative budget did not expect the level of registrants that occurred.
- **Subsidy receipts from the Endowment** were lower than the GAAP reporting because the June transfer was received after the end of the month, as expected.
- The total **transfer** income of about \$926,000 includes the release of restricted funds (i.e., recovery by the AOG) for the Southeast Asia Memorial Pavilion, the extended Heritage Trail from the class of 1960, and other completed or in-work heritage projects. It is partially offset by the transfer from operations of \$100,000 to establish the AOG Heritage Preservation Fund quasi-endowment, as approved by the board.

Expenses

- **Merchandise purchases** on a cash basis represent actual non-inventory merchandise bought during the reporting period, as well as inventory stocking of new items that will generate future sales. The AOG has undertaken an effort to upgrade the quality of merchandise offered to a more diverse

constituency, such as grandparent's and friends of the cadets and of the Academy.

- The actual **insurance and bonding** premiums paid were slightly above the annual budget because the organization chose to increase some coverage limits on several lines of insurance. However, our broker continues to look for savings for the organization with each renewal.
- While the **facilities expenses** through this report included unexpected maintenance expenditures, there were lower costs for some utilities charges that helped keep the total costs close to the budget. May and June utility billing from DFAS had not been received by June 30 and are, therefore, not included in this statement.
- All other significant cost elements have been discussed in the previous accrual basis analysis and are relevant to cash basis reporting.