

USAFA ENDOWMENT, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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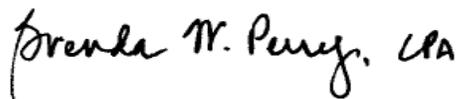
Independent Auditor's Report

Board of Directors
USAFA Endowment, Inc.
Colorado Springs, Colorado

I have audited the accompanying statement of financial position of USAFA ENDOWMENT, INC. (a nonprofit corporation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USAFA ENDOWMENT, INC. as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Napa, California
September 15, 2009

USAFA ENDOWMENT, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2008 AND 2007 (Summarized Totals for 2007)

ASSETS	2008	2007
Cash and cash equivalents	\$ 1,590,881	\$ 405,946
Marketable securities	189,977	44,525
Contributions receivable, net	7,408,220	4,300,042
In-kind contributions receivable	42,180	
Prepaid expenses and deposits	5,075	1,092
Restricted cash	1,949,492	325,000
Beneficial interest in split interest agreement	130,494	
Property and equipment, net	35,637	43,082
	<u>\$ 11,351,956</u>	<u>\$ 5,119,687</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,011	\$ 37,476
Net Assets		
Unrestricted	18,578	24,820
Temporarily restricted	<u>11,329,367</u>	<u>5,057,391</u>
Total Net Assets	<u>11,347,945</u>	<u>5,082,211</u>
	<u>\$ 11,351,956</u>	<u>\$ 5,119,687</u>

The accompanying notes are an integral part of these financial statements.

USAFA ENDOWMENT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Summarized Totals for 2007)

	Unrestricted	Temporarily Restricted	2008 Totals	2007 Totals
Revenue And Support				
Contributions	\$ 355,725	\$ 6,476,766	\$ 6,832,491	\$ 5,231,892
In-kind contributions	88,781	42,180	130,961	18,524
Interest and dividends	190	29,386	29,576	4,484
Realized and unrealized gains and losses		(35,194)	(35,194)	(4,825)
Released from restrictions	241,162	(241,162)		
Total Revenue And Support	685,858	6,271,976	6,957,834	5,250,075
Expenses				
Grants	298,577		298,577	57,640
Salaries	154,000		154,000	40,166
Travel	37,451		37,451	7,542
Employee benefits	34,197		34,197	7,512
Meeting expenses	31,057		31,057	1,200
Meals and entertainment	27,672		27,672	23,411
Outside services	26,160		26,160	5,000
Supplies and other	25,663		25,663	2,220
Professional services	18,546		18,546	255
Occupancy	15,252		15,252	14,616
Payroll taxes	11,622		11,622	3,454
Depreciation	8,988		8,988	766
Insurance	2,915		2,915	4,082
Total Expenses	692,100		692,100	167,864
Change In Net Assets	(6,242)	6,271,976	6,265,734	5,082,211
Net assets, beginning of the year, as previously stated	522,855	4,559,356	5,082,211	
Prior period adjustment	(498,035)	498,035		
Net Assets, beginning of the year, restated	24,820	5,057,391	5,082,211	
Net Assets, End Of The Year	\$ 18,578	\$ 11,329,367	\$ 11,347,945	\$ 5,082,211

The accompanying notes are an integral part of these financial statements.

USAFA ENDOWMENT, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Summarized Totals for 2007)

Cash Flows From Operating Activities	2008	2007
Change in Net Assets	\$ 6,265,734	\$ 5,082,211
Adjustments To Reconcile Change in Net Assets To Net Cash Provided By Operating Activities:		
Unrealized losses on investments	35,194	4,825
Contributions of marketable securities	(563,733)	(49,350)
Depreciation and amortization expense	8,988	766
Increase in		
Contributions receivable	(3,108,178)	(4,300,042)
In-kind contributions receivable	(42,180)	
Beneficial interest in split interest agreement	(130,494)	
Prepaid expenses and deposits	(3,983)	(1,092)
Increase (decrease) in accounts payable	(33,465)	37,476
Net Cash Provided By Operating Activities	2,427,883	774,794
 Cash Flows From Investing Activities		
Purchases of investments	(181,644)	
Proceeds from sales of investments	564,731	
Purchase of software and equipment	(1,543)	(43,848)
Net Cash Provided by (Used By) Investing Activities	381,544	(43,848)
 Cash Flows From Financing Activities		
Increase in restricted cash from donors	(1,624,492)	(325,000)
Net Increase In Cash And Cash Equivalents	1,184,935	405,946
Cash And Cash Equivalents, Beginning Of The Year	405,946	
Cash And Cash Equivalents, End Of The Year	\$ 1,590,881	\$ 405,946
 Supplemental Disclosures Of Cash Flow Information		
Cash paid during the year for interest	\$ 0	\$ 0
Cash paid during the year for income taxes	\$ 0	\$ 0

The accompanying notes are an integral part of these financial statements.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Purpose

The USAFA Endowment, Inc. (“Organization”), a nonprofit corporation, was organized under the laws of the state of Delaware in July 2007. The mission of the Organization is to provide private funding to support the programs and capital needs of the United States Air Force Academy in Colorado Springs, Colorado. The Organization works actively to identify and to cultivate key relationships with current and potential Academy donors to support the United States Air Force Academy’s strategic development priorities.

The founders believe that a foundation, singularly charged with the abiding stewardship of donated funds and constituted in such a way as to ensure the permanency and efficacy of the gift, is the most effective structure for providing this support to the Academy. The founding donors have established a restricted fund which is a principal source of funding for the operating expenses of the USAFA Endowment, now and for the future. This Founding Director’s fund will enable all other program donations to be used exclusively for their intended purpose, and no fees or deductions of any kind will ever be assessed on restricted gifts. Investment gains will also accrue entirely for the benefit of the donor’s intended charitable purpose.

The founding principles of the organization include no fees on restricted contributions, stewardship in perpetuity for the organization’s management and administrative needs, transparency in financial reporting, and a positive and supportive approach to the Academy and the Air Force.

Basis of Accounting

The Organization prepares its financial statements using the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

Basis of Accounting - continued

Generally accepted accounting principles require that the Organization present information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Organization reports contributions as restricted if they are received with donor stipulations that limit the use of the donated asset. When a donor-imposed restriction expires, that is, when the time restriction ends or the purpose restriction is accomplished, then temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Any temporarily restricted revenues whose restrictions are met in the same reporting period are shown as unrestricted support. The Organization held no permanently restricted net assets as of December 31, 2008 and 2007.

Net assets and revenues, expenses, gains and losses are classified accordingly based on the existence or absence of donor-imposed restrictions. Net assets and changes therein are classified as follows:

- Unrestricted net assets – includes unrestricted funds available for general operations and support used in operations after meeting donor restrictions.
- Temporarily restricted net assets – includes funds whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include 1) fair value of pledges receivable, 2) useful lives of fixed assets 3) fair value of contributed in-kind services and 4) net present value of the beneficial interest in split interest agreement. Actual results could be different from those estimates.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization treats highly liquid debt instruments with a due date of three months or less as cash equivalents. Cash and cash equivalents includes Founders Operating Fund cash available for operations (Note 11).

Investments

In accordance with GAAP, investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by purpose) in the reporting period in which the income and gains are recognized.

Pledges Receivable

Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Split Interest Agreements

Assets held under split-interest agreements represent charitable remainder trust funds. These assets are recorded in temporarily restricted net assets at fair value at the time of the gift. The trustee is required to pay a certain portion of the annual income from these assets to the donor or a designated beneficiary for a specified period of time, usually for the life of the donor or beneficiary.

Property and Equipment

Property and equipment are stated at cost and assets with a cost of \$500 or more are capitalized. Depreciation and amortization expenses are computed using the straight-line method over an estimated useful life of five years. Depreciation and amortization expense was \$8,988 and \$766 for the years ended December 31, 2008 and 2007 respectively.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

Functional Expenses

Expenses are allocated to general categories based on specific identification. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

In-Kind Contributions

Contributed services are reported as in-kind contributions at their fair market value if such services would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such skills. Contributed use of facilities is also reported within in-kind contributions at fair value.

Grant Expense

Grant expense includes cash payments as well as direct payment of approved expenses for the benefit of the United States Air Force Academy or other qualifying charitable organizations.

Income Taxes

The Organization was accepted as a tax-exempt Organization under Section 501(c) (3) of the Internal Revenue Code classified as other than a private foundation. Therefore, these financial statements contain no provision for Federal Income Tax.

Prior Period Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not included sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financials statement for the year ended December 31, 2007, from which the summarized information was derived.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

New Accounting Pronouncements

On January 1, 2008, the Organization adopted the provisions of SFAS No. 157, *Fair value Measurements* (“SFAS 157”), for financial instruments and liabilities. The effect of the adoption of SFAS 157 did not have a material effect on the changes in net assets or the financial position of the Organization (Notes 4 and 16).

During August 2008, The FASB issued FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds* (“FSP 117-1.”) FSP 117-1 requires an organization subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA) to classify a portion of a perpetual donor-restricted endowment funds as permanently restricted net assets. The Organization is a Delaware corporation, and UPMIFA became effective in the State of Delaware on July 1, 2007. FSP 117-1 also requires all not-for-profit organizations with donor-restricted or board-designated endowment funds to make new disclosures about such funds regardless of whether an organization is subject to an enacted version of UPMIFA. The Organization adopted FSP 117-1 on January 1, 2008. As of December 31, 2008, the Organization did not hold an “endowment” or “quasi-endowment” as defined and discussed in FSP 117-1 and therefore the adoption of this rule had no effect on the changes in net assets or the financial position of the Organization.

2. Concentration of Credit Risk

The Organization maintained cash balances at two financial institutions during 2008. The balances at times exceeded federally insured limits.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

3. Marketable Securities

Marketable securities consisted of equity and fixed income mutual funds as well as one common stock. There were no investment fees incurred during the years ended December 31, 2008 and 2007. Market values and costs as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Market Value	Cost	Market Value	Cost
Equity securities	\$ 169,012	\$ 203,210	\$ 44,525	\$ 49,350
Fixed income securities	<u>20,965</u>	<u>20,000</u>	<u>0</u>	<u>0</u>
	<u>\$ 189,977</u>	<u>\$ 223,210</u>	<u>\$ 44,525</u>	<u>\$ 49,350</u>

4. Contributions Receivable

An allowance of 4% has been recorded for doubtful pledges, and contributions receivable have also been discounted to present value based on a rate of 1.5%. All expected 2008 pledges were received during the year ended December 31, 2008. Management believes that the 4% allowance as of December 31, 2008 is conservative and that the resulting net pledges receivable balance represents “risk-free” pledges. The balance net of the allowance has been discounted accordingly to present value using a risk free rate of 1.5%, which was the approximate short term United States Treasury bill rate as of December 31, 2008.

As of December 31, 2008, pledges receivable are expected to be collected in future years based on the following schedule:

2009	\$ 1,637,827
2010	2,749,188
2011	1,171,255
2012	1,325,171
2013 and thereafter	<u>1,157,112</u>
	8,040,553
Less allowance	(321,622)
Less discount	<u>(310,711)</u>
	<u>\$ 7,408,220</u>

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

5. In-Kind Contributions Receivable

During 2008, one Board member pledged 100 hours of in-kind private airplane services which were recorded with a total value of \$100,000. These services were restricted by the donor to benefit the Falcon Football program at the United States Air Force Academy. A portion of these services in the amount of \$57,820 was used during 2008, and the balance of \$42,180 is expected to be used during 2009, and has been reported as in-kind contributions receivable accordingly.

6. Restricted Cash

Restricted cash consists of cash balances restricted by donors for specific non-operating purposes.

7. Beneficial Interest in Split Interest Agreement

The Organization became the beneficiary of a split-interest agreement entered into with donors with terms as follows on November 18, 2008. The charitable remainder unitrust was established on November 19, 2004; the donors are the trustees. The agreement includes quarterly payments jointly to the donors during their lifetimes, or to the donor's estate following the death of the second donor, equal to 8% of the net fair value of the trust assets valued as of the first business day of each trust taxable year for a total of 20 years. During the period November 18, 2004 to November 18, 2008, a different qualifying charitable organization was named as the beneficiary. The present value of the Organization's remainder interest is calculated using a discount rate of 8%, which is equal to the targeted annual investment return on the assets in the trust. The Organization's beneficial interest in this remainder trust at net present value is estimated to be \$130,494 as of December 31, 2008.

8. Property and Equipment

Property and equipment as of December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Software	\$ 16,484	\$ 16,484
Office equipment	5,935	4,392
Organizational costs	<u>22,972</u>	<u>22,972</u>
	45,391	43,848
Less accumulated depreciation and amortization	<u>(9,754)</u>	<u>(766)</u>
	<u>\$ 35,637</u>	<u>\$ 43,082</u>

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

9. Realized and Unrealized Gains and Losses

Realized and unrealized gains and losses consist of the following:

	<u>2008</u>	<u>2007</u>
Realized gains on investments	\$ 998	\$ 0
Unrealized losses on investments	<u>(36,192)</u>	<u>(4,825)</u>
	<u>\$ (35,194)</u>	<u>\$ (4,825)</u>

10. Retirement Plan

During the year ended December 31, 2007, the Organization adopted a Simplified Employee Pension (SEP) plan for employees. Total employee retirement contributions by the Organization for the years ended December 31, 2008 and 2007 were \$17,111 and \$3,739 respectively.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets include the following funds. All funds are restricted as to purpose as of December 31, 2008 except for \$120,379 in unrestricted donations which are restricted as to time. Purpose-restricted funds held in pledges receivable were restricted as to both purpose and time. All funds were restricted as to purpose and \$4,300,042 was restricted as to both purpose and time as of December 31, 2007. The funds are held in cash, investments, and pledges and in-kind contributions receivable.

	<u>2008</u>	<u>2007</u>
Founders Operating Fund	\$ 6,277,916	\$ 2,806,334
Indoor Practice Facility	2,142,931	475,319
Center for Character and Leadership	943,559	864,217
Chair in Character and Leadership	322,658	406,102
Just-In-Time Teaching Fund	530,873	
Senior Scholar in Residence	295,902	
Warrior Remembrance Endowment for Coaching Excellence	315,274	
Jannetta Lectureship	204,862	
Other funds	<u>295,392</u>	<u>522,979</u>
Total	<u>\$11,329,367</u>	<u>\$ 5,074,951</u>

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

12. Lease Commitment

The Organization extended a lease agreement for office space during 2008. The amended term of the lease is one year ending December 31, 2009 and minimum future lease payments are \$1,114 per month, or \$13,368 for 2009.

13. Related Party Transactions and Concentrations

Board members contributed 83% and 99% of total contribution revenues of \$6,963,452 and \$5,231,892 for the years ended December 31, 2008 and 2007 respectively. Board members also accounted for 93% and 100% of the pledges and in-kind contributions receivable balances of \$7,408,220 and \$4,300,042 as of December 31, 2008 and 2007.

14. In-Kind Contributions

In-kind services were received from Board members during the years ended December 31, 2008 and 2007 for private airplane services, accounting services, and office space in the amounts of \$130,961 and \$18,524 respectively. For the year ended December 31, 2008, in kind expenses including \$57,820 for grants, \$25,000 for outside services, and \$5,961 in other expenses were also recorded, and \$42,180 was reported as in kind contributions receivable as of December 31, 2008. In kind outside services and rent expense for the year ended December 31, 2007 were \$18,524. The Organization received other volunteer services from many individuals during 2008 and 2007; some of these amounts have not been recorded because GAAP recognition guidelines were not met.

15. Functional Expenses

Functional expenses for the year ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Program		
Chair in Character and Leadership	\$ 127,070	\$ 57,640
Falcon Football program support	158,119	9,611
Other program expenses	<u>20,792</u>	<u>0</u>
Total program expenses	305,981	67,251
Management and general	84,879	22,861
Fundraising	<u>301,240</u>	<u>77,752</u>
	<u>\$ 692,100</u>	<u>\$ 167,864</u>

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

16. Fair Value Accounting

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”), which is effective for the Organization’s fiscal year beginning January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS 157. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level II—Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III—Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

15. Fair Value Accounting – continued

The following table summarizes the valuation of the Organization's investments by the SFAS 157 fair value hierarchy levels as of December 31, 2008:

	<u>12/31/2008</u>	<u>Quoted Prices in Active Markets For Identical Assets Level I</u>	<u>Significant Other Observable Inputs Level II</u>	<u>Significant Unobservable Inputs Level III</u>
Available for sale securities	<u>\$ 189,977</u>	<u>\$ 189,977</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$ 189,977</u>	<u>\$ 189,977</u>	<u>\$ 0</u>	<u>\$ 0</u>

16. Prior Period Adjustment

During the year ended December 31, 2008, the Organization discovered an error in the prior year financial statements. A portion of temporarily restricted net assets was classified in error as unrestricted board designated net assets in the amount of \$498,035. A prior period adjustment to reclassify this amount to temporarily restricted net assets has been recorded accordingly. This adjustment had no effect on the total change in net assets for the year ended December 31, 2007.

17. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications had no effect on the changes in net assets reported for the prior year.