

The USAFA Endowment

A NEW APPROACH TO GIVING

USAFA Endowment, Inc.

Financial Statements with
Independent Auditors' Report

For the Year Ended December 31, 2009
(With Summarized Comparative Totals for 2008)

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
USAFA ENDOWMENT, INC.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of USAFA ENDOWMENT, INC. (the Organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of the Organization as of December 31, 2008, which were audited by other auditors whose report dated September 15, 2009, expressed an unqualified opinion on those financial statements.

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 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USAFA ENDOWMENT, INC. as of December 31, 2009, 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.

Lautze & Lautze

San Francisco, California
May 25, 2010

USAFA ENDOWMENT, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2009
(With Summarized Comparative Totals for 2008)

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 2,027,035	\$ 1,929,166
Prepaid expenses and deposits	11,608	5,075
In-kind contributions receivable	-	42,180
Promises to give, net	7,064,667	7,408,220
Investments	3,887,798	1,801,184
Beneficial interest in split-interest agreement	192,817	130,494
Property and equipment, net	32,127	35,637
Total assets	\$ 13,216,052	\$ 11,351,956
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 57,219	\$ 4,011
Total liabilities	57,219	4,011
 Commitments		
Net assets:		
Unrestricted	95,338	18,578
Temporarily restricted	13,063,495	11,329,367
Total net assets	13,158,833	11,347,945
Total liabilities and net assets	\$ 13,216,052	\$ 11,351,956

USAFA ENDOWMENT, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009
(With Summarized Comparative Totals for 2008)

	2009			2008
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, gains, and other support:				
Contributions	\$ 168,694	\$ 2,409,198	\$ 2,577,892	\$ 6,696,724
In-kind contributions	120,993	-	120,993	127,148
Interest and dividends	225	78,069	78,294	29,576
Net realized and unrealized gains (losses) on investments	(12)	186,145	186,133	(29,920)
Change in value of split-interest agreement	-	62,323	62,323	130,494
Net assets released from restrictions	1,001,607	(1,001,607)	-	-
Total revenue, gains, and other support	1,291,507	1,734,128	3,025,635	6,954,022
Expenses:				
Program services:				
Air Force Academy Athletics Foundation	-	-	-	7,876
Association of Graduates	-	-	-	1,500
Astronautics Department	-	-	-	2,000
Chair in Character and Leadership	63,458	-	63,458	127,070
Class of '63 Gift	4,026	-	4,026	-
Coaches reimbursement	100,000	-	100,000	-
Falcon Foundation	4,032	-	4,032	-
Football banquet	2,000	-	2,000	-
Football recruiting software	-	-	-	99,500
In-kind Football Recruiting Private Jet Travel	97,806	-	97,806	57,820
Jannetta Lecture Series	20,000	-	20,000	-
Martinson Just-in-Time Teaching Fund	190,000	-	190,000	-
Military History Symposium	35,000	-	35,000	-
Scowcroft Professorship	4,833	-	4,833	-
Superintendent's Discretion	-	-	-	2,011
Unmanned Aerial Systems Program	45,000	-	45,000	-
Other	870	-	870	5,832
Total program services	567,025	-	567,025	303,609
Supporting services:				
Management and general	210,155	-	210,155	84,880
Fundraising	437,567	-	437,567	299,799
Total supporting services	647,722	-	647,722	384,679
Total expenses	1,214,747	-	1,214,747	688,288
Change in net assets	76,760	1,734,128	1,810,888	6,265,734
Net assets:				
Beginning of year	18,578	11,329,367	11,347,945	5,082,211
End of year	<u>\$ 95,338</u>	<u>\$ 13,063,495</u>	<u>\$ 13,158,833</u>	<u>\$ 11,347,945</u>

USAFA ENDOWMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009
(With Summarized Comparative Totals for 2008)

	2009				2008
	Program Services	Management and General	Fundraising	Total	Total
Accounting fees	\$ -	\$ 32,799	\$ -	\$ 32,799	\$ 9,877
Bank charges	-	3,082	-	3,082	1,388
Conferences, conventions and meetings	-	52,048	-	52,048	31,057
Depreciation	-	4,774	4,574	9,348	8,988
In-kind accounting services	-	56,830	-	56,830	25,000
In-kind rent	-	3,506	-	3,506	2,148
Insurance	-	6,794	-	6,794	2,634
Legal fees	-	10,625	-	10,625	5,811
Medical and dental	-	-	33,027	33,027	16,931
Occupancy	-	-	15,520	15,520	13,104
Other taxes and fees	-	588	-	588	-
Payroll taxes	-	-	15,405	15,405	11,622
Pension contributions	-	-	22,723	22,723	17,111
Postage and shipping	-	-	4,671	4,671	886
Printing and copying	-	622	20,619	21,241	11,134
Professional fees - other	-	1,408	-	1,408	1,471
Professional fundraising	-	-	1,195	1,195	-
Program services	567,025	-	-	567,025	303,609
Promotion and entertainment	-	-	38,089	38,089	-
Recruiting	-	23,812	-	23,812	155
Salaries and wages	-	8,750	207,425	216,175	154,000
Software	-	1,235	220	1,455	5,968
Supplies	-	376	3,991	4,367	3,623
Telephone and telecommunications	-	1,420	3,333	4,753	3,861
Ticket purchases	-	-	26,281	26,281	22,250
Travel	-	912	37,489	38,401	35,379
Website	-	-	3,005	3,005	-
Workers' compensation	-	574	-	574	281
	<u>\$ 567,025</u>	<u>\$ 210,155</u>	<u>\$ 437,567</u>	<u>\$ 1,214,747</u>	<u>\$ 688,288</u>

USAFA ENDOWMENT, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2009
(With Summarized Comparative Totals for 2008)

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 1,810,888	\$ 6,265,734
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in discount on promises to give	93,257	(116,114)
Change in allowance for doubtful promises to give	(10,429)	72,839
Net realized and unrealized losses (gains) on investments	(186,133)	29,920
Change in value of split-interest agreement	(62,323)	(130,494)
Depreciation	9,348	8,988
Donated stock	(229,341)	(563,733)
Decrease (increase) in assets:		
Prepaid expenses and deposits	(6,533)	(3,983)
In-kind contributions receivable	42,180	(42,180)
Promises to give	260,725	(3,064,903)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	53,208	(33,465)
Net cash provided by operating activities	1,774,847	2,422,609
Cash flows from investing activities:		
Purchase of investments	(4,977,621)	(1,462,577)
Proceeds from sale of investments	3,306,481	564,731
Purchase of property and equipment	(5,838)	(1,543)
Net cash used in investing activities	(1,676,978)	(899,389)
Net increase in cash and cash equivalents	97,869	1,523,220
Cash and cash equivalents:		
Beginning of year	1,929,166	405,946
End of year	\$ 2,027,035	\$ 1,929,166

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

USAFA Endowment, Inc. (the 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 (the 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 of the Organization 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 for the Academy. The founding donors have established a restricted fund which is a principal source of funding for the operating expenses of the Organization, now and for the future. This Founding Director Fund will enable all other program donations to be used exclusively for their intended purpose, and no fees or deductions of any kind are 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 United States Air Force Academy.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the Organization report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of the Organization are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Organization's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Classification of Net Assets (Continued)

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

The Organization has no permanently restricted net assets as of December 31, 2009.

Use of Estimates

The preparation of 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 assets and 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. Significant estimates subject to change are the allowance for doubtful promises to give, fair value of in-kind contributions and the beneficial interest in split-interest agreement.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables are discounted using a comparable risk-free rate.

Cash and Cash Equivalents

The Organization considers all bank account and money market funds expected to be disbursed in one year to be cash equivalents. Cash and cash equivalents at December 31, 2009 of \$2,027,035 include \$1,918,212 of cash received from donors, restricted for specific purposes. Bank account and money market funds held in excess of expected one-year disbursements are classified separately as investments.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give which are due beyond this accounting cycle are recorded at the present value of the contribution, determined using the risk-free interest rate applicable for the year in which the promises are to be received. The interest portion earned in future periods is recorded as contributions in the periods earned.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give (Continued)

The Organization uses the allowance method to account for uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Investments

Marketable investments in equity and debt securities are carried at fair value based upon quoted market prices.

The Organization's Investment Committee is responsible for establishing investment criteria and overseeing the Organization's investments.

Remainder Interest in Trust

The Organization is designated as a remainder beneficiary under a charitable remainder trust. Under the terms of this agreement, the income beneficiaries (or their estate) receive distributions for a given term. At the end of the term, assets remaining in the trust, which represent the remainder interest of the Organization, will be transferred to the Organization. The Organization is neither the trustee nor does it exercise any control over the assets. The beneficial interest in these assets has been recorded at the present value of the estimated future benefits to be received.

Property and Equipment

The Organization capitalizes acquisitions of property and equipment with a cost or value in excess of \$500 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from five to seven years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

Program Services Payable

Program services are recognized as expenses in the period that the offer is made and accepted.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions

The Organization recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

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 are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Organization records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended December 31, 2009, the Organization received private airplane services in the amount of \$55,626 which were restricted for program services.

In addition, the Organization recorded accounting services of \$56,830, donated materials of \$5,031, and in-kind rent of \$3,506 for the year ended December 31, 2009.

Investment Income

Realized and unrealized gains and losses and investment income (losses) derived from investment transactions are included as income in the year earned.

Functional Expenses

The cost of providing various program services and other activities has been summarized on a functional basis in the statement of activities. 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.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a qualified organization exempt from federal income taxes under the provisions of §501(c)(3) of the Internal Revenue Code.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance related to de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. During the year ended December 31, 2009, the Organization performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the statement of activities, or which may have an affect on its tax-exempt status.

Concentrations of Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments, and promises to give. The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization attempts to limit its credit risk associated with cash equivalents and investments by utilizing outside investment managers to place the Organization’s investments with highly rated corporate and financial institutions. Concentrations of credit risk with respect to promises to give are limited because the promises are from numerous individuals. Management believes that the Organization is not exposed to any significant credit risk related to concentrations.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standard Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* (SFAS No. 168) (FASB ASC 105-10-xx). FASB ASC 105-10-xx replaces all previously issued accounting standards and establishes the FASB Accounting Standards CodificationTM (FASB ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. FASB ASC 105-10-xx is effective for all interim and annual periods ending after September 15, 2009. The FASB ASC is not intended to change existing accounting principles generally accepted in the United States of America. The adoption of this pronouncement only resulted in changes to the Organization’s financial statement disclosure references. As such, the adoption of this pronouncement has no effect on the Organization’s financial position, results of operations, or cash flows.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the summarized comparative totals for 2008 have been reclassified to conform to the 2009 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

2. FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SFAS No. 157, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Bond funds, equity funds and securities: Valued at the closing price reported on the active market on which the individual funds and securities are traded and are generally categorized in Level 1 of the fair value hierarchy.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

2. FAIR VALUE MEASUREMENTS AND INVESTMENTS (CONTINUED)

Money market funds: The carrying amounts of money market funds approximate fair value because of the short maturity of these instruments.

Certificates of deposit: Certificates of deposit are carried at cost, which approximates fair value due to the short-term nature of the certificates.

Beneficial interest in split-interest agreement: The beneficial interest in the split-interest agreement is recorded at fair value using the present value of the estimated future benefits to be received.

Financial assets measured at fair value on a recurring basis

The following table provides information as of December 31, 2009 about the Organization's financial assets measured at fair value on a recurring basis (excluding cash and cash equivalents).

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	December 31, 2009
Assets at fair value:			
Investments:			
Bond funds	\$ 1,422,976	\$ -	\$ 1,422,976
Money market funds	1,189,980	-	1,189,980
Equity funds and securities	1,234,686	-	1,234,686
Certificate of deposit	40,156	-	40,156
	<u>3,887,798</u>	<u>-</u>	<u>3,887,798</u>
Total investments	3,887,798	-	3,887,798
Beneficial interest in split-interest agreement	<u>-</u>	<u>192,817</u>	<u>192,817</u>
Total assets at fair value	<u>\$ 3,887,798</u>	<u>\$ 192,817</u>	<u>\$ 4,080,615</u>

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

2. FAIR VALUE MEASUREMENTS AND INVESTMENTS (CONTINUED)

Changes in Level 3 assets measured at fair value on a recurring basis

The following table summarizes the changes in assets classified in Level 3 for the year ended December 31, 2009. Changes in fair value are attributable to both observable and unobservable inputs.

	<u>Beneficial Interest in Split-Interest Agreement</u>
Balance at December 31, 2008	\$ 130,494
Change in value of split-interest agreement	<u>62,323</u>
Balance at December 31, 2009	<u><u>\$ 192,817</u></u>

The change in value of the split-interest agreement is included in the change in net assets.

3. PROMISES TO GIVE, NET

Unconditional promises to give at December 31, 2009 consist of the following:

	<u>Current</u>	<u>Due in 1 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Temporarily restricted:				
Founding Director Fund	\$ 958,106	\$ 3,572,542	\$ -	\$ 4,530,648
Character and Leadership Center	1,000,000	-	-	1,000,000
Indoor Training Facility	751,772	363,008	-	1,114,780
Martinson Just-in-Time Teaching Fund	190,000	190,000	-	380,000
Other funds	<u>498,726</u>	<u>245,675</u>	<u>10,000</u>	<u>754,401</u>
	3,398,604	4,371,225	10,000	7,779,829
Allowance for doubtful promises to give	(135,944)	(174,849)	(400)	(311,193)
Discount to net present value	<u>-</u>	<u>(402,156)</u>	<u>(1,813)</u>	<u>(403,969)</u>
	<u><u>\$ 3,262,660</u></u>	<u><u>\$ 3,794,220</u></u>	<u><u>\$ 7,787</u></u>	<u><u>\$ 7,064,667</u></u>

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

3. PROMISES TO GIVE, NET (CONTINUED)

All long-term promises to give are stated at their present values. Management has discounted these promises to give based on the 5-year U.S. Treasury yield, a comparable risk-free rate. The rate at December 31, 2009 was 2.69%.

One donor comprises approximately 16% of outstanding promises to give (before any allowance or discount) at December 31, 2009.

4. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT

The Organization is the beneficiary of a charitable remainder unitrust. One of the Trustees is also a Board member.

Under the terms of the trust, payments are to be made to the two donors during their lifetimes, or to the donor's estate following the death of the second donor, for a total period of 20 years. The annual payments equal 8% of the net fair value of the trust assets valued as of the first business day of each trust taxable year. The present value of the Organization's future benefits 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 the net present value is \$192,817 as of December 31, 2009.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2009 consist of the following:

Software	\$ 20,974
Office equipment	7,283
Other	<u>22,972</u>
	51,229
Accumulated depreciation	<u>(19,102)</u>
	<u><u>\$ 32,127</u></u>

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2009 may be expended for:

Supporting services:	
Founding Director Fund (including beneficial interest in split-interest agreement of \$192,817)	\$ 7,244,059
Program services:	
Indoor Training Facility	2,635,246
Character and Leadership Center	1,035,895
Martinson Just-in-Time Teaching Fund	351,070
Warrior Remembrance for Coaching Excellence	300,466
Senior Scholar-in-Residence	300,419
Chair in Character and Leadership	274,805
Jannetta Lecture Series	204,886
Other funds	716,649
	<u>716,649</u>
	<u>\$ 13,063,495</u>

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the year ended December 31, 2009 as follows:

Supporting services:	
Founding Director Fund	\$ 405,018
Program services:	
Martinson Just-in-Time Teaching Fund	190,000
Falcon Football Fund	142,180
Fund for Academics	78,601
Other funds	185,808
	<u>185,808</u>
	<u>\$ 1,001,607</u>

8. RETIREMENT PLAN

The Organization has adopted a SEP-IRA plan for its employees. Full-time employees are eligible for participation in the plan effective on the first day of the month following the date of their employment. Subject to federal limitations, the Organization makes a contribution, determined each pay period, of 11.1% of the employee's non-retirement compensation. For the year ended December 31, 2009, the Organization's total contribution was \$22,723.

USAFA ENDOWMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Organization received approximately \$1,780,000 of contributions from members of its Board of Directors. Board members also accounted for approximately 84% of outstanding promises to give (before any allowance or discount) of \$7,779,829 as of December 31, 2009.

10. COMMITMENTS AND SUBSEQUENT EVENTS

On November 25, 2009, the Board of Directors of the Organization and the Board of Directors of the Association of Graduates (AOG), entered into a Memorandum of Understanding (MOU) to establish a collaborative, comprehensive friendraising and fundraising process designed to raise increasing levels of charitable support for the Academy, better serve the needs of the graduate community, and put an end to discord and confusion among graduates and other supporters that have been counter-productive for the Academy. A complete statement of the terms of the MOU can be found at <http://www.usafa.org/giving/files/AOG-EndowmentMOU.pdf>.

In consideration of the MOU, and because the AOG has transferred to the Organization its previous fundraising responsibilities so that the AOG can focus on friendraising among the Academy's graduate community and non-graduates, the Organization and the AOG entered into an Operating Support Contract effective January 1, 2010. The terms of the contract include that the Organization will:

- Provide operating support of \$600,000 per year (the Annual Operating Support) to the AOG during the calendar years 2010 and 2011. The Annual Operating Support will be paid monthly, commencing January 2010, in the amount of one third of the total unrestricted annual fund revenue for the current month but not less than \$35,000 per month.
- Establish a separate "guarantee fund" for the first year of the Annual Operating Support by depositing an amount of not less than \$100,000 per month, during the first quarter of 2010, into the fund so that as of March 31, 2010, the fund balance is not less than \$300,000.
- Provide the AOG a payment of 25% of any unrestricted annual fund gifts received above a total amount of \$1,900,000 received during a calendar year. Payment is to be made within 45 days of the year end.
- Pay the AOG \$86,000 per year for services provided, to include rent of office space, and furniture and equipment, data entry services, information technology support for hardware and software systems, utilities. Payment is to be made in equal monthly installments during the calendar years 2010 and 2011.

The Organization has evaluated all subsequent events through May 25, 2010, the date the financial statements were available to be issued.