

USAFA ENDOWMENT, INC.

Financial Statements

For the Year Ended December 31, 2012

And

Independent Auditors' Report

USAFA ENDOWMENT, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of USAFA Endowment, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USAFA Endowment, Inc. as of December 31, 2012 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.

Report on Summarized Comparative Information

We have previously audited USAFA Endowment, Inc.'s 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 19, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

September 11, 2013

USAFA ENDOWMENT, INC.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2012 (with comparative totals for 2011)

| | 2012 | 2011 |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 7,453,030 | \$ 2,275,261 |
| Investments | 7,364,212 | 8,207,774 |
| Promises to give, net | 20,095,656 | 17,246,039 |
| Prepaid expenses | 51,192 | 52,045 |
| Beneficial interest in split-interest agreement | 165,928 | 165,928 |
| Property and equipment, net | <u>33,356</u> | <u>51,673</u> |
| TOTAL ASSETS | <u>\$ 35,163,374</u> | <u>\$ 27,998,720</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 202,636 | \$ 192,994 |
| Gift commitments and funds held for others | <u>5,577,241</u> | <u>454,349</u> |
| TOTAL LIABILITIES | <u>5,779,877</u> | <u>647,343</u> |
| NET ASSETS | | |
| Unrestricted | 1,925,034 | 1,363,277 |
| Temporarily restricted | <u>27,458,463</u> | <u>25,988,100</u> |
| Total net assets | <u>29,383,497</u> | <u>27,351,377</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 35,163,374</u> | <u>\$ 27,998,720</u> |

See notes to financial statements.

USAFA ENDOWMENT, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012 (with comparative totals for 2011)

| | 2012 | | | 2011 Total |
|--|---------------------|---------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| SUPPORT AND REVENUE | | | | |
| Contributions | \$ 2,659,350 | \$ 14,985,561 | \$ 17,644,911 | \$ 16,520,731 |
| Net realized and unrealized gains (losses) on investments | 28 | 624,755 | 624,783 | (269,389) |
| Interest and dividends | 42 | 189,602 | 189,644 | 134,304 |
| Change in value of split-interest agreement | | | | (42,314) |
| Other | 6,211 | | 6,211 | (1,777) |
| Net assets released from restrictions | <u>14,329,555</u> | <u>(14,329,555)</u> | | |
| Total support and revenue | <u>16,995,186</u> | <u>1,470,363</u> | <u>18,465,549</u> | <u>16,341,555</u> |
| EXPENSES | | | | |
| Program services | 13,975,087 | | 13,975,087 | 1,559,104 |
| Supporting services: | | | | |
| Fund raising | 1,757,804 | | 1,757,804 | 1,611,199 |
| General and administrative | <u>700,538</u> | | <u>700,538</u> | <u>548,724</u> |
| Total expenses | <u>16,433,429</u> | <u>—</u> | <u>16,433,429</u> | <u>3,719,027</u> |
| CHANGE IN NET ASSETS | 561,757 | 1,470,363 | 2,032,120 | 12,622,528 |
| NET ASSETS, Beginning of year | <u>1,363,277</u> | <u>25,988,100</u> | <u>27,351,377</u> | <u>14,728,849</u> |
| NET ASSETS, End of year | <u>\$ 1,925,034</u> | <u>\$ 27,458,463</u> | <u>\$ 29,383,497</u> | <u>\$ 27,351,377</u> |

See notes to financial statements.

USafa ENDOWMENT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012 (with comparative totals for 2011)

| | 2012 | | | 2011 Total |
|--|----------------------|---------------------|---|----------------------|
| | Program Services | Fund Raising | Supporting Services General and Adminis- trative | |
| EXPENSES | | | | |
| Programs: | | | | |
| Center for Character and Leadership Development | \$ 12,008,634 | | | \$ 12,008,634 |
| Rokke-Fox Senior Scholar | 142,615 | | | \$ 221,735 |
| Risner Senior Military Scholar | 60,000 | | | 40,000 |
| Dean's discretionary programs | 186,389 | | | 92,197 |
| Scowcroft Professor | 102,770 | | | 95,956 |
| Jannetta Lectureship | 10,000 | | | 10,000 |
| Law Department | 35,000 | | | 35,000 |
| Martinson Just-in-Time Teaching | | | | 190,713 |
| Aeronautics Department | | | | 30,000 |
| Athletic Director's discretionary programs | 59,369 | | | 59,369 |
| Air Force Academy Athletic Association | 87,164 | | | 87,164 |
| In-kind football travel | 100,197 | | | 103,683 |
| Falcon Stadium renovations | 94,041 | | | 94,041 |
| Holiday Athletic Center | 26,643 | | | 94,962 |
| Intercollegiate athletic teams | 19,737 | | | 3,725 |
| Superintendent's discretionary programs | 334,789 | | | 336,762 |
| Academy Preparatory School | 10,003 | | | 10,003 |
| Class of '70 – Southeast Asia Pavilion | | | | 150,000 |
| Class of '76 – World Trade Center exhibit | | | | 50,000 |
| Miscellaneous Academy programs | 24,144 | | | 24,144 |
| Academy graduate programs | 648,261 | | | 648,261 |
| Other | 25,331 | | | 25,331 |
| Salaries and benefits | | \$ 952,151 | \$ 478,040 | 1,430,191 |
| Printing and copying | | 146,608 | 282 | 146,890 |
| Professional fundraising | | 141,252 | | 141,252 |
| Conferences and meetings | | 89,110 | 46,809 | 135,919 |
| Travel | | 118,553 | 14,683 | 133,236 |
| Professional fees | | 57,730 | 48,157 | 105,887 |
| Occupancy | | 63,264 | 26,735 | 89,999 |
| Payroll taxes | | 53,169 | 29,925 | 83,094 |
| Postage and shipping | | 42,292 | 479 | 42,771 |
| Promotion and donor appreciation | | 42,592 | | 42,592 |
| Bank fees and charges | | | 23,739 | 23,739 |
| Depreciation | | 11,459 | 8,858 | 20,317 |
| Software | | 10,198 | 6,589 | 16,787 |
| Supplies | | 10,876 | 1,112 | 11,988 |
| Other | | 18,550 | 15,130 | 33,680 |
| TOTAL | <u>\$ 13,975,087</u> | <u>\$ 1,757,804</u> | <u>\$ 700,538</u> | <u>\$ 16,433,429</u> |
| PERCENT OF TOTAL | <u>85%</u> | <u>11%</u> | <u>4%</u> | <u>100%</u> |
| COMPARATIVE TOTALS – 2011 | <u>\$ 1,559,104</u> | <u>\$ 1,611,199</u> | <u>\$ 548,724</u> | <u>\$ 3,719,027</u> |
| PERCENT OF TOTAL – 2011 | <u>42%</u> | <u>43%</u> | <u>15%</u> | <u>100%</u> |

See notes to financial statements.

USAFA ENDOWMENT, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2012 (with comparative totals for 2011)

| | 2012 | 2011 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 2,032,120 | \$ 12,622,528 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net realized and unrealized (gains) losses on investments | (624,783) | 269,389 |
| Change in value of split-interest agreement | | 42,314 |
| Depreciation | 20,317 | 18,088 |
| Contributions of investments | (3,924,242) | (3,728,044) |
| Changes in operating assets and liabilities: | | |
| Promises to give | (2,849,617) | (4,877,620) |
| Prepaid expenses | 853 | (30,320) |
| Accounts payable and accrued expenses | 9,642 | (2,195,347) |
| Gift commitments and funds held for others | <u>5,122,892</u> | <u>(6,157,243)</u> |
| Net cash used in operating activities | <u>(212,818)</u> | <u>(4,036,255)</u> |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | 9,884,614 | 3,066,260 |
| Purchases of investments | (4,492,027) | (3,457,942) |
| Purchases of property and equipment | <u>(2,000)</u> | <u>(18,388)</u> |
| Net cash provided by (used in) investing activities | <u>5,390,587</u> | <u>(410,070)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 5,177,769 | (4,446,325) |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>2,275,261</u> | <u>6,721,586</u> |
| CASH AND CASH EQUIVALENTS, End of year | <u>\$ 7,453,030</u> | <u>\$ 2,275,261</u> |

See notes to financial statements.

USAFA ENDOWMENT, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 Academy.

Basis of Presentation — The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no permanently restricted net assets as of December 31, 2012 and 2011.

The financial statements include certain prior year summarized comparative information in total. 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, 2011, from which the summarized information was derived.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Cash and Cash Equivalents —The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents.

Investments — Investments are recorded at fair value. Realized and unrealized gains and losses are reflected in the statement of activities. Earnings on investments are recognized as an increase in unrestricted or temporarily restricted net assets according to the nature of the restrictions on the original gift. Donated investments are recorded at fair market value on the date of donation.

Promises to Give — Unconditional promises to give are recognized in the period received. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. The discounts on these amounts are computed using a risk adjusted discount rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization uses the allowance method to account for uncollectible promises to give. The allowance is based on historical experience and management's analysis of individual promises.

Beneficial Interest in Split-Interest Agreement — 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 — All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized at cost. Donated assets are recorded at fair market value on the date of the donation. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets, ranging from five to seven years.

Gift Commitments — Unconditional promises made by the Organization are recorded as a gift commitment liability and program services expense in the period the promise is made. Conditional promises are recognized when the conditions on which they depend are substantially made.

Contributions — Contributions received are recorded as increases in non-restricted, temporarily restricted, or permanently restricted net assets, depending on the existence and nature of any donor restrictions.

Contributed Goods, Services and Facilities — Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use 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 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 years ended December 31, 2012 and 2011, the Organization received private airplane services in the amount of \$100,197 and \$103,683, respectively, which were used for program services and donated materials of \$27,277 and \$32,455, respectively.

Functional Allocation of Expenses — The cost of providing various program services and other activities has been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program and supporting expense categories based on management's estimates.

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 addition, the Organization qualifies for the charitable contribution deduction.

The Organization believes that it does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include 2009 through the current period.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through September 11, 2013, the date the financial statements were available for issuance.

2. AGREEMENTS WITH THE ASSOCIATION OF GRADUATES

In November 2009, the Organization and the Association of Graduates of the United States Air Force Academy (the "AOG"), entered into a Memorandum of Understanding (the "2009 MOU") to establish a collaborative, comprehensive friendraising and fundraising process designed to raise increasing levels of charitable support for the Academy and to better serve the needs of the graduate community. The 2009 MOU was effective through December 31, 2011. In December 2011, the Organization and the AOG entered into a new Memorandum of Understanding (the "2011 MOU"). The 2011 MOU was effective on January 1, 2012 and remains in effect for a minimum of two years. In the event that the Organization and AOG do not enter into another Memorandum of Understanding by December 31, 2013 the baseline and split of annual funds will revert to the 2009 MOU. Either party may terminate the 2011 MOU with 60 days written notice.

In connection with the 2011 MOU, effective January 1, 2012, the Organization and the AOG entered into an Operating Support Contract (the "Contract"). Pursuant to the principal provisions of the Contract, the Organization agreed to:

- Provide operating support of \$600,000 per year (the Annual Operating Support) to the AOG from the first \$1,900,000 of unrestricted annual fund receipts. The Annual Operating Support will be paid monthly in the amount of 37.5% of the total unrestricted annual fund receipts for the current month, but not less than \$35,000 per month.
- Pay the AOG 45% of any unrestricted annual fund gifts received above a total amount of \$1,900,000 received by the Organization during the calendar year.

- Pay the AOG \$90,000 per year for services provided, to include rent of office space, furniture and equipment, data entry services, information technology support for hardware and software system and utilities. Payment is to be made in equal monthly installments. The fee for services to be provided in 2013 will be adjusted using the change in the consumer price index.

In 2012, the Organization received \$2,247,884 in unrestricted annual fund gifts from donors, resulting in Annual Operating Support to the AOG of \$756,548. The AOG received \$608,690 during 2012 resulting in a remaining commitment to the AOG of \$147,858 as of December 31, 2012. In 2011, the Organization received \$1,954,858 in unrestricted annual fund gifts from donors, resulting in Annual Operating Support to the AOG of \$613,715. The AOG received \$551,462 during 2011 resulting in a remaining commitment to the AOG of \$62,253 as of December 31, 2011 (see Note 7).

The 2011 MOU also provides for a Joint Coordinating Committee (JCC) comprised of four voting members, two members each from the respective Boards of Directors of the Organization and the AOG. The 2009 MOU required the Organization to distribute, in accordance with the recommendations of the JCC and based upon documented needs, an additional 25% of any unrestricted annual fund gifts received in excess of \$1,900,000 annually during each of the years 2010 and 2011. Under the 2011 MOU, the JCC does not receive any distributions. For 2011, the Organization had requested that the JCC allocation of 25% of excess annual fund gifts of \$13,715 be distributed to the Academy; accordingly, the Organization recorded such amount as a gift commitment to the Academy (as discussed below).

The 2011 MOU requires the Organization to make annual gifts of \$300,000 to the Academy from the Organization's first \$1,900,000 of unrestricted annual fund gifts. The Organization is also required to distribute to the Academy 10% of any unrestricted annual fund gifts received in excess of \$1,900,000. Under the 2009 MOU the Organization was required to distribute to the Academy 25% of any unrestricted annual fund gifts received in excess of \$1,900,000. As a result of this commitment, the accompanying statements of financial position as of December 31, 2012 and 2011 include gift commitments to the Academy of \$398,504 (including \$63,716 remaining from the 2011 allocation) and \$313,715, respectively, which are available to be distributed to the Academy upon its request. At December 31, 2011, a gift commitment to the Academy of \$13,715 had also been recorded related to the requested 2011 JCC allocation discussed above (see Note 7).

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

Level 3: Prices determined using significant unobservable inputs.

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

Mutual funds and common stocks are valued based on quoted market prices. Certificates of deposit are stated at cost which approximates fair value. See Note 5 regarding the valuation of the beneficial interest in split-interest agreement.

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

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------|---|--|--|
| 2012: | | | | |
| Investments: | | | | |
| Bond mutual fund | \$ 3,982,929 | \$ 3,982,929 | | |
| Domestic equity mutual funds | 1,737,868 | 1,737,868 | | |
| International equity mutual fund | 1,571,226 | 1,571,226 | | |
| Domestic common stocks | <u>72,189</u> | <u>72,189</u> | | |
| Total investments | 7,364,212 | 7,364,212 | \$ — | \$ — |
| Beneficial interest in split-interest agreement | <u>165,928</u> | | | <u>165,928</u> |
| Total assets at fair value | <u>\$ 7,530,140</u> | <u>\$ 7,364,212</u> | <u>\$ —</u> | <u>\$ 165,928</u> |

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------|--|---|--|
| 2011: | | | | |
| Investments: | | | | |
| Bond mutual fund | \$ 3,618,290 | \$ 3,618,290 | | |
| Domestic equity mutual funds | 2,956,111 | 2,956,111 | | |
| International equity mutual fund | 1,592,248 | 1,592,248 | | |
| Certificate of deposit | <u>41,125</u> | <u> </u> | \$ 41,125 | |
| Total investments | 8,207,774 | 8,166,649 | 41,125 | \$ — |
| Beneficial interest in split-interest agreement | <u>165,928</u> | <u> </u> | <u> </u> | <u>165,928</u> |
| Total assets at fair value | <u>\$ 8,373,702</u> | <u>\$ 8,166,649</u> | <u>\$ 41,125</u> | <u>\$ 165,928</u> |

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31, 2012 and 2011:

| | Beneficial Interest in Split-Interest Agreement |
|---|--|
| Balance, January 1, 2011 | \$ 208,242 |
| Change in value of split-interest agreement | <u>(42,314)</u> |
| Balance, December 31, 2011 | 165,928 |
| Change in value of split-interest agreement | <u>—</u> |
| Balance, December 31, 2012 | <u>\$ 165,928</u> |

4. PROMISES TO GIVE

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

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Due in less than one year | \$ 8,286,976 | \$ 6,145,849 |
| Due in one to five years | 10,514,542 | 11,117,948 |
| Due thereafter | <u>1,959,917</u> | <u>901,459</u> |
| Total | 20,761,435 | 18,165,256 |
| Discount to net present value of estimated cash flows | <u>(665,779)</u> | <u>(919,217)</u> |
| Promises to give, net | <u>\$ 20,095,656</u> | <u>\$ 17,246,039</u> |

Management has estimated the expected future cash flows relating to promises to give and discounted the expected future cash flows to net present value using a risk-adjusted discount rate.

5. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENT

The Organization is the beneficiary of a charitable remainder unitrust (the Trust). One of the Trustees of the Trust is also a member of the Organization’s Board of Directors.

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 5.5%, 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 \$165,928 at December 31, 2012 and 2011.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | 2012 | 2011 |
|-------------------------------|------------------|------------------|
| Office equipment | \$ 59,969 | \$ 60,145 |
| Software | 20,974 | 20,974 |
| Other | <u>22,972</u> | <u>22,972</u> |
| Total | 103,915 | 104,091 |
| Less accumulated depreciation | <u>70,559</u> | <u>52,418</u> |
| Total | <u>\$ 33,356</u> | <u>\$ 51,673</u> |

7. GIFT COMMITMENTS AND FUNDS HELD FOR OTHERS

The Organization’s gift commitments and funds held for others consist of the following at December 31:

| | 2012 | 2011 |
|---|-----------------------------|-------------------|
| Center for Character and Leadership Development | \$ 4,000,000 | |
| Friends of the Air Force Academy Library | 1,030,879 | |
| Payable to the Academy (see Note 2) | 398,504 | \$ 327,430 |
| Payable to the AOG (see Note 2) | 147,858 | 62,253 |
| Other | <u> </u> | <u>64,666</u> |
| Total | <u>\$ 5,577,241</u> | <u>\$ 454,349</u> |

During 2012, the Organization made a conditional promise to give \$12,000,000 to the Academy towards the construction of the Center for Character and Leadership Development. This gift was conditional on the funds being used to provide facility enhancements to be included in the design and construction of the building. During 2012, the Organization delivered \$8,000,000 of its gift commitment and, as of December 31, 2012, has a gift commitment of \$4,000,000 for the remaining balance.

During 2012, the Organization received funds to be held on behalf of Friends of the Air Force Academy Library (the Friends). As of December 31, 2012, the Organization held \$1,030,879 on behalf of the Friends.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets may be expended for the following purposes at December 31:

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Supporting services: | | |
| Founding Director Fund | \$ 8,552,089 | \$ 8,222,475 |
| USAFA Endowment Fund | 197,094 | 542,146 |
| Program services: | | |
| Center for Character and Leadership Development and related programs | 11,960,321 | 13,923,098 |
| Athletic programs | 2,125,141 | 674,808 |
| Academic programs | 1,918,255 | 1,366,827 |
| Academy programs | 1,038,666 | 339,320 |
| Holaday Athletic Center | 534,951 | 493,962 |
| Other funds | <u>1,131,946</u> | <u>425,464</u> |
| Total | <u>\$ 27,458,463</u> | <u>\$ 25,988,100</u> |

9. CONCENTRATIONS

The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits.

As of December 31, 2012, approximately 16% and 13% of promises to give were from two individual donors. During 2012, the Organization received approximately 19% and 12% of its contributions from two individual donors.

As of December 31, 2011, approximately 16% and 15% of promises to give were from two individual donors. During 2011, the Organization received approximately 21%, 10% and 10% of its contributions from three individual donors.

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, the Organization received \$5,299,125 and \$2,520,345, respectively, of contributions from members of its Board of Directors (including promises to give). Board members accounted for \$6,796,696 and \$6,502,317 of outstanding promises to give (before the discount to net present value) as of December 31, 2012 and 2011, respectively.

11. RETIREMENT PLAN

The Organization has adopted a SEP-IRA defined contribution retirement plan for its employees. Full-time employees are eligible for participation in the plan effective on the first day 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 years ended December 31, 2012 and 2011 the Organization's total contributions were \$126,728 and \$113,781, respectively.