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USAFA ENDOWMENT, INC.

Financial Statements

For the Year Ended December 31, 2015

And

Independent Auditors' Report

USAFA ENDOWMENT, INC.

TABLE OF CONTENTS

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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, 2015 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.

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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, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited USAFA Endowment, Inc.'s 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

May 3, 2016

USAFA ENDOWMENT, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015 (with comparative totals for 2014)

	2015	2014
ASSETS		
Cash and cash equivalents	$ 15,418,346	$ 12,255,517
Investments	23,937,199	16,155,039
Promises to give, net	15,079,104	22,211,408
Prepaid expenses	45,830	54,397
Beneficial interest in split-interest agreement	137,912	137,912
Property and equipment, net	10,905	20,614
TOTAL ASSETS	$ 54,629,296	$ 50,834,887
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 261,682	$ 175,325
Gift commitments and funds held for others	5,190,238	3,360,024
Total liabilities	5,451,920	3,535,349
NET ASSETS		
Unrestricted	1,963,149	1,512,715
Temporarily restricted	47,214,227	45,786,823
Total net assets	49,177,376	47,299,538
TOTAL LIABILITIES AND NET ASSETS	$ 54,629,296	$ 50,834,887

See notes to financial statements.

USAFA ENDOWMENT, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015 (with comparative totals for 2014)

	2015			2014
	Unrestricted	**Temporarily Restricted**	**Total**	**Total**
SUPPORT AND REVENUE				
Contributions	$ 2,852,955	$ 13,327,907	$ 16,180,862	$ 15,432,945
Net realized and unrealized gains (losses) on investments	(198)	(1,232,060)	(1,232,258)	288,069
Interest and dividends	14	469,316	469,330	315,079
Other	14,377		14,377	2,220
Net assets released from restrictions	11,137,759	(11,137,759)		
Total support and revenue	14,004,907	1,427,404	15,432,311	16,038,313
EXPENSES				
Program services	10,893,145		10,893,145	3,404,995
Supporting services:				
Fund raising	2,063,133		2,063,133	1,888,694
General and administrative	598,195		598,195	687,975
Total expenses	13,554,473	—	13,554,473	5,981,664
CHANGE IN NET ASSETS	450,434	1,427,404	1,877,838	10,056,649
NET ASSETS, Beginning of year	1,512,715	45,786,823	47,299,538	37,242,889
NET ASSETS, End of year	$ 1,963,149	$ 47,214,227	$ 49,177,376	$ 47,299,538

See notes to financial statements.

USAFA ENDOWMENT, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015 (with comparative totals for 2014)

	2015				
		Supporting Services			
	Program Services	**Fund Raising**	**General and Adminis-trative**	**Total**	**2014 Total**
EXPENSES					
Programs:					
Character and Leadership Development programs	$ 6,302,784			$ 6,302,784	$ 716,123
Class giving programs	1,377,466			1,377,466	240,000
Dean's academic programs	1,120,334			1,120,334	527,657
Academy graduate programs	958,690			958,690	913,157
Athletic programs and facilities	474,133			474,133	362,677
Superintendent programs	367,696			367,696	507,955
Commandant programs	176,526			176,526	55,401
Other Academy related programs, facilities and activities	115,516			115,516	82,025
Supporting services:					
Salaries and benefits		$ 1,252,629	$ 422,321	1,674,950	1,570,806
Travel		141,200	6,739	147,939	135,447
Professional fundraising		157,656		157,656	160,010
Printing and copying		135,585	150	135,735	108,820
Payroll taxes		72,588	30,105	102,693	90,460
Occupancy		72,820	21,364	94,184	93,351
Professional fees		35,225	26,530	61,755	84,593
Conferences and meetings		13,225	44,047	57,272	86,962
Postage and shipping		54,783	436	55,219	50,256
Software		23,277	2,569	25,846	14,185
Bank fees and charges			16,220	16,220	18,425
Depreciation		10,105	1,473	11,578	23,300
Other		94,040	26,241	120,281	140,054
TOTAL	$ 10,893,145	$ 2,063,133	$ 598,195	$ 13,554,473	
PERCENT OF TOTAL	80%	15%	5%	100%	
COMPARATIVE TOTALS – 2014	$ 3,404,995	$ 1,888,694	$ 687,975		$ 5,981,664
PERCENT OF TOTAL – 2014	57%	32%	11%		100%

See notes to financial statements.

USAFA ENDOWMENT, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 (with comparative totals for 2014)

	2015	2014
OPERATING ACTIVITIES		
Change in net assets	$ 1,877,838	$ 10,056,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	1,232,258	(288,069)
Depreciation	11,578	23,300
Contributions of investments not yet liquidated	(1,682,482)	(597,034)
Changes in operating assets and liabilities:		
Promises to give	7,132,304	(2,029,064)
Prepaid expenses	8,567	(1,634)
Accounts payable and accrued expenses	86,357	61,405
Gift commitments and funds held for others	1,830,214	(55,367)
Net cash provided by operating activities	10,496,634	7,170,186
INVESTING ACTIVITIES		
Proceeds from sales of investments	297,115	286,690
Purchases of investments	(7,629,051)	(1,112,346)
Purchases of property and equipment	(1,869)	(11,607)
Net cash used in investing activities	(7,333,805)	(837,263)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,162,829	6,332,923
CASH AND CASH EQUIVALENTS, Beginning of year	12,255,517	5,922,594
CASH AND CASH EQUIVALENTS, End of year	$ 15,418,346	$ 12,255,517

See 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 enables all program donations to be used exclusively for their intended purpose and no fees or deductions of any kind are assessed on restricted gifts. Investment returns also accrue entirely to the applicable restricted fund.

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, 2015 and 2014.

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, 2014, 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 risk adjusted discount rates applicable to the year in which the promise is received. Such discount rates ranged from 1.0% to 2.14% as of December 31, 2015. 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.

Revenue Recognition — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from 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.

The Organization received donated materials and services of $123,848 and $50,344 in 2015 and 2014, 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 2012 through the current period.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. AGREEMENTS WITH THE ASSOCIATION OF GRADUATES

The Organization and the Association of Graduates of the United States Air Force Academy (the AOG), have entered into a Memorandum of Understanding (the 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 MOU was effective on January 1, 2014 and remains in effect for a minimum of four years. Either party may terminate the MOU with 60 days written notice.

Under the MOU, annual fund cash receipts are distributed as follows: 51% retained by the Organization, 34% distributed to the AOG and 15% made available to the Academy. As of January 1, 2016, the distribution to the Academy will be reduced to 5% for three years with the Endowment retaining an additional 10%. In the event that the Organization and AOG do not enter into another Memorandum of Understanding by December 31, 2017, the allocation of the annual funds will be as follows: 21% to the Academy (after the three year reduction period discussed above), 31% to the AOG and 48% retained by the Endowment.

In 2015, the Organization received $2,328,531 in unrestricted annual fund gifts from donors, resulting in allocated support to the AOG and the Academy of $791,700 and $349,280, respectively. In 2014, the Organization received $2,378,716 in unrestricted annual fund gifts from donors, resulting in allocated support to the AOG and the Academy of $808,763 and $356,807, respectively. Unremitted allocations to the AOG and the Academy are included in gift commitments in the accompanying statements of financial position as of December 31, 2015 and 2014. The Academy allocations are available to be distributed to the Academy upon its request.

Pursuant to the MOU, the Organization has recorded a gift commitment to the AOG equal to 34% of the annual fund promises to give as of December 31, 2015 and 2014. As of December 31, 2015, the Organization has recorded a gift commitment to the Academy equal to 5% of the annual fund promises to give that are expected to be received in the years 2016 through 2018 and 15% of the annual fund promises to give expected to be received in years subsequent to 2018. As of December 31, 2014, the Organization had a gift commitment to the Academy equal to 15% of the annual fund promises to give.

In connection with the MOU the Organization and the AOG entered into an Annual Operating Contract (the Contract). Pursuant to the principal provisions of the Contract, the Organization agreed to pay the AOG approximately $93,000 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 provided each year is adjusted using the change in the consumer price index.

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. Bonds are valued through pricing services. Real estate held for sale consists of industrial and residential properties donated to the Organization and are valued based on appraisals using the sales comparison approach. 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)
2015:				
Investments:				
Domestic equity mutual funds	$ 12,285,068	$ 12,285,068		
International equity mutual funds	9,847,211	9,847,211		
Real estate held for sale	1,800,000		$ 1,800,000	
Municipal bond	4,920		4,920	
Total investments	23,937,199	22,132,279	1,804,920	$ —
Beneficial interest in split-interest agreement	137,912			137,912
Total assets at fair value	$ 24,075,111	$ 22,132,279	$ 1,804,920	$ 137,912
2014:				
Investments:				
Domestic equity mutual funds	$ 9,091,690	$ 9,091,690		
International equity mutual funds	6,500,426	6,500,426		
Real estate held for sale	400,000		$ 400,000	
Domestic common stocks	146,742	146,742		
International common stocks	11,425	11,425		
Municipal bond	4,756		4,756	
Total investments	16,155,039	15,750,283	404,756	$ —
Beneficial interest in split-interest agreement	137,912			137,912
Total assets at fair value	$ 16,292,951	$ 15,750,283	$ 404,756	$ 137,912

The following table show quantitative information about significant unobservable inputs related to Level 3 fair value measurements used as of December 31, 2015 and 2014:

	Valuation Technique	Unobservable Inputs	Inputs 2015	Inputs 2014
Beneficial interest in split-interest agreement	Discounted cash flows	Return on assets	4.0%	4.0%
		Discount rate	4.0%	4.0%

There was no change in the value of the beneficial interest in split-interest agreement during the years ended December 31, 2015 and 2014.

4. PROMISES TO GIVE

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

	2015	2014
Due in less than one year	$ 7,496,951	$ 12,946,754
Due in one to five years	8,106,946	9,527,265
Due thereafter	2,481	363,638
Total	15,606,378	22,837,657
Allowance for doubtful promises to give	(302,747)	(295,536)
Discount to net present value of estimated cash flows	(224,527)	(330,713)
Promises to give, net	$ 15,079,104	$ 22,211,408

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 4.0% as of December 31, 2015 and 2014. The discount rate is based on the estimated annual investment return on the assets in the Trust. The Organization's beneficial interest in this remainder trust at the net present value is $137,912 at December 31, 2015 and 2014.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2015	2014
Office equipment	$ 52,349	$ 60,374
Software	20,974	20,974
Other	22,972	22,972
Total	96,295	104,320
Less accumulated depreciation	85,390	83,706
Total	$ 10,905	$ 20,614

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:

	2015	2014
The Academy	$ 2,600,963	$ 667,374
The AOG	1,372,842	1,414,524
Friends of the Air Force Academy Library	1,216,433	1,278,126
Total	$ 5,190,238	$ 3,360,024

See Note 2 regarding gift commitments to the AOG and the Academy resulting from agreements with those organizations under the MOU.

During 2015, the Academy accepted two gift offers from the Organization of $2,500,000 each for landscaping and enhancements to the Character and Leadership Development Center. The Organization paid expenses of $2,836,841 under the gift offers during the year ended December 31, 2015. As of December 31, 2015, the Organization has $2,163,159 remaining as gift commitments under these two gift offers to the Academy.

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, 2015 and 2014, the Organization held $1,216,433 and $1,278,126, respectively, on behalf of the Friends.

8. TEMPORARILY RESTRICTED NET ASSETS

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

	2015	2014
Supporting services:		
Founding Director Fund	$ 10,852,526	$ 10,275,442
USAFA Endowment Campaign Initiative Fund	1,638,843	1,579,096
USAFA Endowment Fund	685,713	288,361
Mazet Memorial Fund	338,053	782,453
Other	13,561	23,417
Program services:		
Center for Character and Leadership Development and related programs	17,064,284	22,337,053
Athletic facilities and programs	8,608,995	1,860,158
Academic programs	5,357,684	5,355,354
Academy programs	1,156,104	1,370,224
Other funds	1,498,464	1,915,265
Total	$ 47,214,227	$ 45,786,823

9. CONCENTRATIONS

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

As of December 31, 2015, approximately 14% and 11% of promises to give were from two individual donors. During 2015, the Organization received approximately 32% and 12% of its contributions from two individual donors.

As of December 31, 2014, approximately 23% and 11% of promises to give were from two individual donors. During 2014, the Organization received approximately 31% and 14% of its contributions from two individual donors.

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, the Organization received $9,422,562 and $3,845,963, respectively, of contributions from members of its Board of Directors (including promises to give). Board members accounted for $5,577,228 and $5,612,996 of outstanding promises to give (before the discount to net present value) as of December 31, 2015 and 2014, 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, 2015 and 2014 the Organization's total contributions were $168,472 and $146,853, respectively.