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STOCKMAN KAST RYAN + COMPANY

# AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

**Consolidated Financial Statements**

**For the Year Ended December 31, 2023**

**And**

**Independent Auditors' Report**

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors
Air Force Academy Foundation and Affiliate
Colorado Springs, Colorado

**Opinion**

We have audited the accompanying consolidated financial statements of the Air Force Academy Foundation and Affiliate (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the Organization’s 2022 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 15, 2023. In our opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Stockman Kast Ryan + Co, LLP*

May 10, 2024

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**DECEMBER 31, 2023 (with comparative totals for 2022)**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 42,173,845 | $ 26,933,636 |
| Investments | 71,197,178 | 60,623,817 |
| Promises to give, net | 43,213,210 | 42,192,782 |
| Prepaid expenses and other assets | 1,175,292 | 421,904 |
| Beneficial interest in split-interest agreements | 146,078 | 144,462 |
| Property and equipment, net | 1,077,920 | 278,532 |
| TOTAL ASSETS | $ 158,983,523 | $ 130,595,133 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 809,997 | $ 701,523 |
| Gift commitments and funds held for others | 13,595,107 | 7,499,390 |
| Total liabilities | 14,405,104 | 8,200,913 |
| NET ASSETS | | |
| Without donor restrictions | 4,916,763 | 3,208,877 |
| With donor restrictions | 139,661,656 | 119,185,343 |
| Total net assets | 144,578,419 | 122,394,220 |
| TOTAL LIABILITIES AND NET ASSETS | $ 158,983,523 | $ 130,595,133 |

See notes to consolidated financial statements.

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

### CONSOLIDATED STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED DECEMBER 31, 2023 (with comparative totals for 2022)

| | 2023 | | | 2022 |
|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | **Total** |
| SUPPORT AND REVENUE | | | | |
| Contributions | $ 2,496,708 | $ 34,325,060 | $ 36,821,768 | $ 37,080,567 |
| Net realized and unrealized gains (losses) on investments | (1,293) | 11,079,073 | 11,077,780 | (13,786,643) |
| Interest and dividends | 196,620 | 2,456,756 | 2,653,376 | 1,805,697 |
| Other | 150,019 | | 150,019 | 10,946 |
| Net assets released from restrictions | 27,384,576 | (27,384,576) | | |
| Total support and revenue | 30,226,630 | 20,476,313 | 50,702,943 | 25,110,567 |
| EXPENSES | | | | |
| Program services | 23,055,138 | | 23,055,138 | 10,725,590 |
| Supporting services: | | | | |
| General and administrative | 2,839,609 | | 2,839,609 | 2,060,038 |
| Fundraising | 2,623,997 | | 2,623,997 | 2,541,673 |
| Total expenses | 28,518,744 | — | 28,518,744 | 15,327,301 |
| CHANGE IN NET ASSETS | 1,707,886 | 20,476,313 | 22,184,199 | 9,783,266 |
| NET ASSETS, Beginning of year | 3,208,877 | 119,185,343 | 122,394,220 | 112,610,954 |
| NET ASSETS, End of year | $ 4,916,763 | $ 139,661,656 | $ 144,578,419 | $ 122,394,220 |

See notes to consolidated financial statements.

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED DECEMBER 31, 2023 (with comparative totals for 2022)

| | 2023 | | | | |
|---|---|---|---|---|---|
| | | Supporting Services | | | |
| | Program Services | General and Administrative | Fundraising | Total | 2022 Total |
| EXPENSES | | | | | |
| Program Services: | | | | | |
| Academic | $ 8,485,100 | | | $ 8,485,100 | $ 3,482,932 |
| Cadet, graduate and heritage | 4,784,601 | | | 4,784,601 | 1,755,532 |
| Athletic | 3,954,801 | | | 3,954,801 | 1,606,832 |
| Hotel Polaris | 2,140,101 | | | 2,140,101 | |
| Institute for Future Conflict | 1,105,395 | | | 1,105,395 | 751,895 |
| Development | 941,768 | | | 941,768 | 1,037,079 |
| Commandant | 458,949 | | | 458,949 | 240,774 |
| Superintendent | 325,102 | | | 325,102 | 1,843,134 |
| Friends of the Library Agency Fund | 266,023 | | | 266,023 | (288,736) |
| Other | 593,298 | | | 593,298 | 296,148 |
| Supporting Services: | | | | | |
| Employee compensation and benefits | | $ 1,500,497 | $ 1,629,017 | 3,129,514 | 3,025,842 |
| Professional fundraising | | | 287,519 | 287,519 | 128,751 |
| Payroll taxes | | 127,349 | 111,086 | 238,435 | 215,145 |
| Executive office sharing | | 235,861 | | 235,861 | 235,820 |
| Travel | | 35,487 | 169,383 | 204,870 | 186,597 |
| Promotion and engagement | | 183,615 | 16,374 | 199,989 | 284,928 |
| Professional fees | | 184,130 | 7,163 | 191,293 | 266,599 |
| Printing and copying | | 14,337 | 175,347 | 189,684 | 178,273 |
| Conferences and meetings | | 94,474 | 14,172 | 108,646 | 68,050 |
| Postage and shipping | | 6,447 | 57,019 | 63,466 | 60,383 |
| Software | | 11,060 | 38,013 | 49,073 | 43,867 |
| Bank fees and charges | | 39,744 | | 39,744 | 33,520 |
| Depreciation | | 8,140 | 9,587 | 17,727 | 18,858 |
| Other | | 398,468 | 109,317 | 507,785 | (144,922) |
| TOTAL | $ 23,055,138 | $ 2,839,609 | $ 2,623,997 | $ 28,518,744 | |
| PERCENT OF TOTAL | 81% | 10% | 9% | 100% | |
| COMPARATIVE TOTALS – 2022 | $ 10,725,590 | $ 2,060,038 | $ 2,541,673 | | $ 15,327,301 |
| PERCENT OF TOTAL – 2022 | 70% | 13% | 17% | | 100% |

See notes to consolidated financial statements.

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2023 (with comparative totals for 2022)**

| | 2023 | 2022 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in net assets | $ 22,184,199 | $ 9,783,266 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Net realized and unrealized losses (gains) on investments | (11,077,780) | 13,786,643 |
| Depreciation | 17,727 | 18,858 |
| Other | (1,616) | 19,585 |
| Changes in operating assets and liabilities: | | |
| Promises to give | (1,020,428) | (14,968,798) |
| Prepaid expenses and other assets | (753,388) | (13,322) |
| Accounts payable and accrued expenses | 108,474 | (175,041) |
| Gift commitments and funds held for others | 6,095,717 | (1,923,823) |
| Net cash provided by operating activities | 15,552,905 | 6,527,368 |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | 17,358,090 | 866,840 |
| Purchases of investments | (16,853,671) | (4,773,433) |
| Purchases of property and equipment | (817,115) | (138,077) |
| Net cash used in investing activities | (312,696) | (4,044,670) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 15,240,209 | 2,482,698 |
| CASH AND CASH EQUIVALENTS, Beginning of year | 26,933,636 | 24,450,938 |
| CASH AND CASH EQUIVALENTS, End of year | $ 42,173,845 | $ 26,933,636 |

See notes to consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The Air Force Academy Foundation (the Foundation), a nonprofit corporation, was organized under the laws of the State of Delaware in 2007. Effective January 1, 2020, the Foundation changed its name from USAFA Endowment, Inc. to the Air Force Academy Foundation. The mission of the Foundation is to raise charitable support to enhance the programs and facilities for the cadet wing at the United States Air Force Academy (the Academy) in Colorado Springs, Colorado. The Foundation provides ongoing stewardship of donated gifts to ensure gifts are accepted, held and used in accordance with donor intent; and to build a spirit of philanthropy among Academy alumni, parents and friends. The Foundation is committed to operating within the framework of the Academy core values of "Integrity first, Service before self, and Excellence in all we do."

The Foundation's founding donors established the Founding Director Fund, a restricted fund which is a major source of funding for the operating expenses of the Foundation, now and for the future. This Founding Director Fund enables a higher level of program donations to be used principally for their intended purpose. Investment returns also primarily accrue to the applicable restricted fund. Additionally, with respect to restricted gifts, the Foundation allocates a percentage of such gifts for unrestricted purposes; the percentage has been established by the Foundation's Board of Directors and may be adjusted from time to time.

The Air Force Academy Real Estate Trust (the Trust), a nonprofit corporation, was organized under the laws of the State of Colorado in 2021. The mission of the Trust is to support the charitable and educational activities of the Foundation, encourage the donation of real estate assets and to manage such assets for the benefit of the Foundation, encourage the donation of other gifts and to manage such donations for the benefit of the Foundation, support the development and abiding stewardship of gifts to support programs and services for cadets and graduates of the Academy, and to support other organizations, projects, and initiatives that are organized and operated to similar purposes.

**Principles of Consolidation** — The consolidated financial statements as of and for the year ended December 31, 2023 include the accounts of the Air Force Academy Foundation and the Air Force Academy Real Estate Trust (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

**Net Assets** — The Organization reports information regarding its financial position and activities according to two classes of net assets:

*Net assets without donor restrictions* - Net assets available for use in general operations and/or for Academy discretionary purposes - not subject to donor (or certain grantor) restrictions.

*Net assets with donor restrictions* - Net assets subject to donor-imposed (or grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Comparative Financial Information** — The consolidated 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, 2022, from which the summarized information was derived.

**Use of Estimates** — The preparation of the consolidated 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 consolidated 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 or decrease in net assets without donor restrictions or net assets with donor restrictions 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 3.5% as of December 31, 2023. In subsequent years, amortization of the discount is included in contribution revenue in the statement of activities. 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 Agreements** — The Organization is designated as a remainder beneficiary under various split-interest agreements. Under the terms of these agreements, the income beneficiaries (or their estate) receive distributions for a given term. At the end of the respective terms, remaining assets 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 the assets are placed in service. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets, ranging from three 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 met.

**Revenue Recognition** — Contributions received are recorded as without donor restriction or with donor restriction support depending on the existence or nature of any donor restrictions. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated 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 support without donor restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as support with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions 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 $143,160 and $23,093 in 2023 and 2022, respectively.

**Income Taxes** — Both the Foundation and the Trust are qualified organizations exempt from federal income taxes under the provisions of §501(c)(3) of the Internal Revenue Code. In addition, both the Foundation and the Trust qualify for the charitable contribution deduction. The Organization believes that it does not have any uncertain tax positions that are material to the consolidated financial statements.

**Reclassifications** — Certain reclassifications to prior year amounts have been made to conform to the current year presentation.

**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 consolidated financial statements were available for issuance.

## 2. LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of December 31, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of contractual restrictions.

Amounts not available to meet general expenditures within one year include net assets with donor restrictions.

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 42,173,845 | $ 26,933,636 |
| Investments | 71,478,178 | 60,904,817 |
| Promises to give, net | 43,213,210 | 42,192,782 |
| Total financial assets | 156,865,233 | 130,031,235 |
| Less amounts unavailable for general expenditures within one year, due to: | | |
| Restricted by donors with purpose restrictions | (139,661,656) | (119,185,343) |
| Funds held for others | (1,396,221) | (1,342,397) |
| Total financial assets available to management to meet cash needs for general expenditures within one year | $ 15,807,356 | $ 9,503,495 |

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization's policy to manage an emergency cash flow need is through the use of available long-term operating funds. The Organization manages its cash flow through a one-year cycle through the planned use of one-year's unrestricted donations and available long-term operating funds.

## 3. AGREEMENTS AND TRANSACTIONS WITH THE ASSOCIATION OF GRADUATES

Beginning January 1, 2010, the Foundation and the Association of Graduates of the United States Air Force Academy (the AOG), have operated pursuant to several memorandums of understanding which provided for a collaborative, comprehensive friendraising and fundraising relationship designed to raise increasing levels of charitable support for the Academy and to better serve the needs of the graduate community.

The Foundation and the AOG entered into a Cooperative Operating Agreement (the COA) effective January 1, 2022 through December 31, 2024. The COA can be terminated by either organization with sixty days written notice to the other organization. The purpose of the COA is to continue a collaborative, comprehensive friend-raising and fundraising process designed to (1) better serve the graduate community, (2) promote the heritage and value of the Academy and its graduates, and (3) raise increasing levels of philanthropic and charitable support for the Academy. The COA provides for the following key elements:

- Financial Support - The Foundation will make an annual grant available to the AOG. The grant amount will be paid to the AOG on an as-needed basis out of resources without donor restrictions and within the parameters of the Foundation's Board approved annual budget.
- Shared Leadership - The AOG will enter into an employment agreement with an individual who will serve as the Chief Executive Officer of both the AOG and the Foundation. The costs of employment will be shared equally by both organizations.
- Shared Costs - The AOG and the Foundation will continue to provide operating support to each other by providing office space, infrastructure support, and a range of other services as have been provided by the organizations to each other for the past several years.

At the end of each year, the organizations will evaluate the shared costs and determine what, if any, remuneration is necessary by one organization to the other to ensure a reasonable sharing of costs that are mutually beneficial.

Pursuant to the 2022 COA, the Foundation made annual grants to the AOG of $850,000 and $800,000 in 2023 and 2022, respectively.

In 2023 and 2022, the AOG made contributions to the Organization which were restricted for various funds totaling $11,067 and $340,170, respectively. During 2020, the AOG made a pledge to the Organization of $701,772 to be paid in annual installments from 2020 through 2025. The balance on the pledge was $77,000 and $125,500 at December 31, 2023 and 2022, respectively.

## 4. AGREEMENTS AND TRANSACTIONS WITH OTHER ORGANIZATIONS

In December 2022, the Foundation entered into an Endowed Chair Funding Agreement (the "Agreement") with The Academy Research and Development Institute ("ARDI"), a Colorado nonprofit corporation, for the purpose of developing funding and support for endowed academic chairs ("Chairs") at the Academy. In connection with the Agreement, in April 2023, the Foundation and ARDI entered into a revocable trust agreement (the "Chairs Trust") pursuant to which the Foundation provided funding to ARDI in the amount of $5,716,550 for its investment and its use in managing and stewarding certain designated Chairs. The Foundation is the owner of the Chairs Trust, the Chairs Trust assets are held by the Foundation and are included within investments in the accompanying financial statements. The Chairs Trust may be terminated by the Foundation at any time; upon termination of the Chairs Trust, any remaining amounts held in the Chairs Trust by ARDI will be returned to the Foundation.

In December 2022, the Foundation entered into a Memorandum of Understanding (the "MOU") with Air Force Academy Athletic Corporation ("AFAAC") to clarify their respective commitments to construct the Academy's Falcon Stadium. The estimated total cost of the design and construction is approximately $90 million, of which the Foundation has agreed to provide support in an amount up to $35 million throughout the various stages of the project. As of December 31, 2023, the Foundation has paid $4,682,640 toward this project as program service expense and as outlined in the MOU. The remaining portion of the Foundation's $35 million commitment to AFAAC is to be paid in 2024, as construction is complete, and costs are incurred by AFAAC.

## 5. 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; and
- 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 prices in active markets. Bonds are valued through pricing services. Other assets held for sale consists of a painting donated to the Organization and is valued based on an appraisal. See Note 6 regarding the valuation of the beneficial interest in split-interest agreements.

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)** |
|---|---|---|---|---|
| **2023:** | | | | |
| Investments: | | | | |
| Domestic equity mutual funds | $ 44,024,064 | $ 44,024,064 | | |
| International equity mutual funds | 20,862,052 | 20,862,052 | | |
| Common stock | 2,332,653 | 2,332,653 | | |
| Domestic bonds | 2,136,613 | | $ 2,136,613 | |
| Fixed income mutual funds | 1,178,949 | 1,178,949 | | |
| Other assets held for sale | 662,847 | | 662,847 | |
| Total investments | 71,197,178 | 68,397,718 | 2,799,460 | $ — |
| Beneficial interest in split-interest agreements | 146,078 | | | 146,078 |
| Total assets at fair value | $ 71,343,256 | $ 68,397,718 | $ 2,799,460 | $ 146,078 |
| **2022:** | | | | |
| Investments: | | | | |
| Domestic equity mutual funds | $ 37,327,317 | $ 37,327,317 | | |
| International equity mutual funds | 19,997,138 | 19,997,138 | | |
| Domestic bonds | 2,186,681 | | $ 2,186,681 | |
| Fixed income mutual funds | 1,110,470 | 1,110,470 | | |
| Common stock | 2,211 | 2,211 | | |
| Total investments | 60,623,817 | 58,437,136 | 2,186,681 | $ — |
| Beneficial interest in split-interest agreements | 144,462 | | | 144,462 |
| Total assets at fair value | $ 60,768,279 | $ 58,437,136 | $ 2,186,681 | $ 144,462 |

The following table shows quantitative information about significant unobservable inputs related to Level 3 fair value measurements used as of December 31, 2023 and 2022:

| | Valuation Technique | Unobservable Inputs | Inputs 2023 | Inputs 2022 |
|---|---|---|---|---|
| Charitable remainder trust | Discounted cash flows | Return on assets | 4.0% | 4.0% |
| | | Discount rate | 4.0% | 4.0% |
| Gift annuity | Discounted cash flows | Return on assets | Unavailable | Unavailable |
| | | Discount rate | Unavailable | Unavailable |
| | | Estimated life expectancy | Unavailable | Unavailable |

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2023 and 2022:

| | |
|---|---|
| Balance at January 1, 2022 | $ 164,047 |
| Change in value | (19,585) |
| Balance at December 31, 2022 | 144,462 |
| Change in value | 1,616 |
| Balance at December 31, 2023 | $ 146,078 |

## 6. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS

The Foundation is the beneficiary of a charitable remainder unitrust (the Unitrust). One of the Trustees of the Unitrust is also a member of the Foundation'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 Unitrust assets valued as of the first business day of each Unitrust taxable year. The present value of the Foundation's future benefits is calculated using a discount rate of 4% as of December 31, 2023 and 2022. The discount rate is based on the estimated annual investment return on the assets in the Trust. The Foundation's beneficial interest in this remainder trust at the net present value is $137,912 at December 31, 2023 and 2022.

The Foundation is also the beneficiary of gift annuity contracts which had a net present value of $8,166 and $6,550 at December 31, 2023 and 2022, respectively.

## 7. PROMISES TO GIVE

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

| | 2023 | 2022 |
|---|---|---|
| Due in less than one year | $ 20,880,803 | $ 24,290,272 |
| Due in one to five years | 23,122,431 | 17,213,046 |
| Thereafter | 2,179,537 | 3,325,255 |
| Total | 46,182,771 | 44,828,573 |
| Allowance for doubtful promises to give | (1,174,376) | (1,334,697) |
| Discount to net present value of estimated cash flows | (1,795,185) | (1,301,094) |
| Promises to give, net | $ 43,213,210 | $ 42,192,782 |

## 8. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | 2023 | 2022 |
|---|---|---|
| Construction in process | $ 1,054,268 | $ 237,153 |
| Office equipment | 117,741 | 139,913 |
| Software | 20,974 | 20,974 |
| Leasehold improvements | 11,750 | 11,750 |
| Other | 22,972 | 22,972 |
| Total | 1,227,705 | 432,762 |
| Less accumulated depreciation and amortization | (149,785) | (154,230) |
| Property and equipment, net | $ 1,077,920 | $ 278,532 |

## 9. GIFT COMMITMENTS AND FUNDS HELD FOR OTHERS

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

| | 2023 | 2022 |
|---|---|---|
| The Academy | $ 12,135,898 | $ 6,156,993 |
| The Friends of the Air Force Academy Library | 1,392,460 | 1,246,437 |
| Other | 66,749 | 95,960 |
| Total | $ 13,595,107 | $ 7,499,390 |

The gift commitments to the Academy reflected above include gift offers which have been officially accepted by the Academy but were not fully delivered by the Organization to the Academy at year-end.

The Organization holds funds on behalf of The Friends of the Air Force Academy Library (The Friends), an unrelated nonprofit organization which also supports the Academy. As of December 31, 2023 and 2022, the Organization held $1,392,460 and $1,246,437, respectively, on behalf of The Friends.

## 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

| | 2023 | 2022 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Program services: | | |
| Academic | $ 34,128,993 | $ 31,006,122 |
| Center for Character and Leadership Development | 21,776,447 | 18,510,156 |
| Athletic | 21,368,651 | 19,210,833 |
| Commandant | 7,720,402 | 6,137,026 |
| Superintendent | 4,606,938 | 4,045,206 |
| Air Force Academy Real Estate Trust | 2,436,364 | 1,982,918 |
| Cadet, graduate and heritage | 1,092,585 | 1,730,454 |
| Hosmer Visitor Center | 410,166 | 3,758,971 |
| Other | 5,032,292 | 3,169,605 |
| Supporting services: | | |
| Founding Director Fund | 20,167,368 | 16,238,516 |
| New Administration Building Fund | 13,171,810 | 11,062,936 |
| Campaign Initiative Fund | 1,622,810 | 2,332,600 |
| Other | 6,126,830 | |
| Total | $ 139,661,656 | $ 119,185,343 |

## 11. FUNCTIONAL EXPENSES ALLOCATION METHODS

The consolidated financial statements report certain categories of expenses that are associated with one or more programs or with supporting services of the Organization. All expenses are individually identified as to a specific program or supporting service and, accordingly, are directly reflected in the appropriate categories of expenses based on their actual functional purpose.

## 12. CONCENTRATIONS

During 2023, the Organization received approximately 15.7% of its contributions from one individual donor. As of December 31, 2023, approximately 18.1%, 13.0%, and 10.1% of promises to give were from three individual donors.

During 2022, the Organization received approximately 27.0% and 14.8% of its contributions from two individual donors. As of December 31, 2022, approximately 20.9% and 11.2% of promises to give were from two individual donors.

## 13. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2023 and 2022, the Organization received $15,941,195 and $18,660,685, respectively, of contributions from members of its Board of Directors (including promises to give). Outstanding promises to give from Board members (before the discount to net present value) accounted for $20,783,714 and $29,991,773 as of December 31, 2023 and 2022, respectively.

## 14. RETIREMENT PLAN

Effective January 1, 2021, the Organization adopted a qualified defined contribution 401(k) plan. The plan covers employees who are at least 21 years of age and have completed one month of service. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The plan is a safe harbor matching plan, whereby the Organization matches 100% of employee contributions up to 6% of annual compensation. The Organization made matching contributions to the plan of $166,861 and $167,265 for the years ended December 31, 2023 and 2022, respectively.

## 15. SUBSEQUENT EVENT

On March 10, 2024, the Organization entered into a construction contract to build a new administrative building. The total amount of the contract is $16,429,443. Building construction will begin April 2024 and run through May 2025. Payments on this contract will be based on percentage of completion of the project.