



**AIR FORCE ACADEMY FOUNDATION AND AFFILIATE**

**Consolidated Financial Statements**

**For the Year Ended December 31, 2021**

**And**

**Independent Auditors' Report**

# AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

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## **INDEPENDENT AUDITORS' REPORT**

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 (the Organization), which comprise the consolidated statement of financial position as of December 31, 2021, 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 (collectively, the “financial statements”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, 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 Auditor’s Responsibilities for the Audit of the 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 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 2020 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 12, 2021. In our opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Stockman Kast Ryan + Co. LLP*

May 13, 2022

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2021 (with comparative totals for 2020)

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	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,450,938	\$ 31,469,700
Investments	70,784,867	51,952,652
Promises to give, net	27,223,984	20,303,105
Prepaid expenses and other assets	127,582	83,725
Beneficial interest in split-interest agreements	164,047	155,045
Property and equipment, net	<u>159,313</u>	<u>28,891</u>
TOTAL ASSETS	<u>\$ 122,910,731</u>	<u>\$ 103,993,118</u>
 <b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 876,564	\$ 1,420,536
Gift commitments and funds held for others	<u>9,423,213</u>	<u>13,124,154</u>
Total liabilities	<u>10,299,777</u>	<u>14,544,690</u>
NET ASSETS		
Without donor restrictions	3,223,126	2,100,787
With donor restrictions	<u>109,387,828</u>	<u>87,347,641</u>
Total net assets	<u>112,610,954</u>	<u>89,448,428</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 122,910,731</u>	<u>\$ 103,993,118</u>

See notes to consolidated financial statements.

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## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

### CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021 (with comparative totals for 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 4,610,375	\$ 25,791,530	\$ 30,401,905	\$ 25,192,993
Net realized and unrealized gains (losses) on investments		8,879,738	8,879,738	5,885,534
Interest and dividends		922,386	922,386	691,820
Other	656,150		656,150	648,688
Net assets released from restrictions	<u>13,553,467</u>	<u>(13,553,467)</u>		
Total support and revenue	<u>18,819,992</u>	<u>22,040,187</u>	<u>40,860,179</u>	<u>32,419,035</u>
<b>EXPENSES</b>				
Program services	11,215,456		11,215,456	37,579,981
Supporting services:				
General and administrative	2,732,839		2,732,839	2,764,796
Fundraising	<u>1,900,421</u>		<u>1,900,421</u>	<u>1,563,753</u>
Total expenses	<u>15,848,716</u>	<u>—</u>	<u>15,848,716</u>	<u>41,908,530</u>
<b>PRIOR YEARS' CONTRIBUTIONS RETURNED OR WRITTEN OFF</b>				
	<u>1,848,937</u>	<u>—</u>	<u>1,848,937</u>	<u>—</u>
CHANGE IN NET ASSETS	1,122,339	22,040,187	23,162,526	(9,489,495)
NET ASSETS, Beginning of year	<u>2,100,787</u>	<u>87,347,641</u>	<u>89,448,428</u>	<u>98,937,923</u>
NET ASSETS, End of year	<u>\$ 3,223,126</u>	<u>\$ 109,387,828</u>	<u>\$ 112,610,954</u>	<u>\$ 89,448,428</u>

See notes to consolidated financial statements.

# AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021 (with comparative totals for 2020)

	2021			Total	2020 Total
	Program Services	Supporting Services			
		General and Administrative	Fundraising		
EXPENSES					
Program Services:					
Academic	\$ 3,735,806			\$ 3,735,806	\$ 27,180,107
Center for Character and Leadership Development	3,132,550			3,132,550	1,259,624
Superintendent	1,544,146			1,544,146	7,140,167
Cadet, graduate and heritage	1,463,047			1,463,047	1,083,689
Athletic	1,154,275			1,154,275	687,577
Commandant	172,311			172,311	219,866
Other	13,321			13,321	8,951
Supporting Services:					
Employee compensation and benefits		\$ 1,777,682	\$ 1,284,151	3,061,833	3,166,768
Promotion and engagement		247,559	18,740	266,299	16,666
Shared services		203,247		203,247	116,507
Payroll taxes		103,417	82,249	185,666	188,300
Printing and copying		50,449	128,288	178,737	122,754
Professional fundraising			138,045	138,045	138,247
Travel		24,719	99,133	123,852	55,281
Professional fees		113,809	6,158	119,967	216,387
Postage and shipping		28,394	42,026	70,420	57,409
Software		35,102	10,465	45,567	35,642
Conferences and meetings		39,264	520	39,784	12,741
Bank fees and charges		29,657		29,657	32,825
Depreciation		7,735	7,218	14,953	21,619
Other		71,805	83,428	155,233	147,403
TOTAL	\$ 11,215,456	\$ 2,732,839	\$ 1,900,421	\$ 15,848,716	
PERCENT OF TOTAL	71%	17%	12%	100%	
COMPARATIVE TOTALS – 2020	\$ 37,579,981	\$ 2,764,796	\$ 1,563,753		\$ 41,908,530
PERCENT OF TOTAL – 2020	90%	6%	4%		100%

See notes to consolidated financial statements.

## AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021 (with comparative totals for 2020)

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ 23,162,526	\$ (9,489,495)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(8,879,738)	(5,885,534)
Depreciation	14,953	21,619
Contributions of investments pending sale	(96,000)	(35,000)
Other	(9,002)	8,796
Changes in operating assets and liabilities:		
Promises to give	(6,920,879)	11,751,480
Prepaid expenses and other assets	(43,857)	(23,849)
Accounts payable and accrued expenses	(543,972)	1,000,571
Gift commitments and funds held for others	(3,700,941)	11,719,908
Net cash provided by operating activities	<u>2,983,090</u>	<u>9,068,496</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	970,293	3,258,264
Purchases of investments	(10,826,770)	(10,319,186)
Purchases of property and equipment	(145,375)	(4,743)
Net cash used in investing activities	<u>(10,001,852)</u>	<u>(7,065,665)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,018,762)	2,002,831
CASH AND CASH EQUIVALENTS, Beginning of year	<u>31,469,700</u>	<u>29,466,869</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 24,450,938</u>	<u>\$ 31,469,700</u>

See notes to consolidated financial statements.



# AIR FORCE ACADEMY FOUNDATION AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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, 2021 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.

**Basis of Presentation** — During 2021, the basis of presentation was changed from financial statements to consolidated financial statements.

**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, 2020, 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 3.25% as of December 31, 2021. 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 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 \$211,840 and \$232,776 in 2021 and 2020, respectively.

**Contributions Returned or Written Off** — The Organization received two contributions in prior years which were partially returned or written off in 2021. During 2021, the amount of \$1,048,937, which was the remaining portion of a \$1,764,582 contribution made in 2017, was returned and forwarded to a third-party donor advised fund; the charitable purpose for which the original 2017 contribution was intended, ceased to exist and, in 2021, the donor requested the remaining and unused portion of the contribution be returned. Also in 2021, the amount of \$800,000, which was the remaining portion of a \$1,000,000 contribution and promise to give made in 2018, was written off; in 2021, the corporate donor who had made the original 2018 was acquired by new ownership who determined not to fulfill the remaining \$800,000 promise to give.

**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, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the 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.

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 24,450,938	\$ 31,469,700
Investments	70,784,867	51,952,652
Promises to give, net	<u>27,223,984</u>	<u>20,303,105</u>
Total financial assets	<u>122,459,789</u>	<u>103,725,457</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	<u>109,387,828</u>	<u>87,347,641</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 13,071,961</u>	<u>\$ 16,377,816</u>

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 Organization 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.

During 2018, the Organization adopted a Memorandum of Understanding (the "2018 MOU") which was effective through December 31, 2018. In December 2018, the Organization entered into an agreement with the AOG to extend the key provisions of the 2018 MOU through December 31, 2020 (the "2019 MOU"). A new agreement was signed with the AOG in 2021 (the "2021 MOU"). Pursuant to the 2019 MOU and 2021 MOU, the Organization made annual grants to the AOG of \$800,000 in 2021 and 2020.

In 2021 and 2020, the AOG made contributions to the Organization which were restricted for various funds totaling \$1,482,500 and \$4,720,793, 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 \$154,000 and \$192,500 at December 31, 2021 and 2020, respectively.

Subsequent to December 31, 2021, the Foundation and the AOG entered into a Cooperative Operating Agreement (COA) superseding the MOU. The COA is effective January 1, 2022 through December 31, 2024. The agreement 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.

#### **4. 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 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 5 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)
<b>2021:</b>				
Investments:				
Domestic equity mutual funds	\$ 44,753,642	\$ 44,753,642		
International equity mutual funds	22,429,283	22,429,283		
Fixed income mutual funds	1,178,250	1,178,250		
Other assets held for sale	281,000		\$ 281,000	
Domestic bond	104,258		104,258	
Domestic common stock	<u>2,038,434</u>	<u>2,038,434</u>		
Total investments	70,784,867	70,399,609	385,258	\$ —
Beneficial interest in split-interest agreements	<u>164,047</u>			<u>164,047</u>
Total assets at fair value	<u>\$ 70,948,914</u>	<u>\$ 70,399,609</u>	<u>\$ 385,258</u>	<u>\$ 164,047</u>
<b>2020:</b>				
Investments:				
Domestic equity mutual funds	\$ 31,676,678	\$ 31,676,678		
International equity mutual funds	18,785,970	18,785,970		
Fixed income mutual funds	1,182,212	1,182,212		
Other assets held for sale	185,000		\$ 185,000	
Domestic bond	107,100		107,100	
Domestic common stock	<u>15,692</u>	<u>15,692</u>		
Total investments	51,952,652	51,660,552	292,100	\$ —
Beneficial interest in split-interest agreements	<u>155,045</u>			<u>155,045</u>
Total assets at fair value	<u>\$ 52,107,697</u>	<u>\$ 51,660,552</u>	<u>\$ 292,100</u>	<u>\$ 155,045</u>

The following table shows quantitative information about significant unobservable inputs related to Level 3 fair value measurements used as of December 31, 2021 and 2020:

	Valuation Technique	Unobservable Inputs	Inputs	
			2021	2020
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, 2021 and 2020:

Balance at January 1, 2020	\$ 163,841
Change in value	536
Termination of split-interest agreements	<u>(9,332)</u>
Balance at December 31, 2020	155,045
Change in value	<u>9,002</u>
Balance at December 31, 2021	<u>\$ 164,047</u>

## 5. BENEFICIAL INTEREST IN SPLIT-INTEREST AGREEMENTS

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% as of December 31, 2021 and 2020. 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, 2021 and 2020.

The Organization is also the beneficiary of gift annuity contracts which had a net present value of \$26,135 and \$17,133 at December 31, 2021 and 2020, respectively.



## 6. PROMISES TO GIVE

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

	<b>2021</b>	<b>2020</b>
Due in less than one year	\$ 8,043,110	\$ 7,451,247
Due in one to five years	20,593,555	14,243,370
Thereafter	<u>316,962</u>	<u>85,000</u>
Total	28,953,627	21,779,617
Allowance for doubtful promises to give	(1,199,774)	(876,152)
Discount to net present value of estimated cash flows	<u>(529,869)</u>	<u>(600,360)</u>
Promises to give, net	<u>\$ 27,223,984</u>	<u>\$ 20,303,105</u>

## 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<b>2021</b>	<b>2020</b>
Office equipment	\$ 197,381	\$ 184,387
Construction in process	120,985	
Leasehold improvements	11,750	11,750
Software		20,974
Other	<u>22,972</u>	<u>22,972</u>
Total	353,088	240,083
Less accumulated depreciation and amortization	<u>193,775</u>	<u>211,192</u>
Property and equipment, net	<u>\$ 159,313</u>	<u>\$ 28,891</u>

## 8. GIFT COMMITMENTS AND FUNDS HELD FOR OTHERS

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

	<b>2021</b>	<b>2020</b>
The Academy	\$ 7,741,303	\$ 11,609,948
The Friends of the Air Force Academy Library	1,669,790	1,509,982
Other	<u>12,120</u>	<u>4,224</u>
Total	<u>\$ 9,423,213</u>	<u>\$ 13,124,154</u>

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), a separate nonprofit organization which also supports the Academy. As of December 31, 2021 and 2020, the Organization held \$1,669,790 and \$1,509,982, respectively, on behalf of The Friends.

**9. NET ASSETS WITH DONOR RESTRICTIONS**

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

	<b>2021</b>	<b>2020</b>
Subject to expenditure for specified purpose:		
Program Services:		
Academic	\$ 25,265,075	\$ 21,980,442
Center for Character and Leadership Development	21,283,141	20,215,956
Athletic	14,107,224	9,077,990
Commandant	7,005,587	5,579,609
Superintendent programs	4,344,768	3,876,915
Cadet, graduate and heritage	2,726,136	2,592,816
Other	4,191,890	2,923,082
Supporting services:		
Founding Director Fund	20,605,356	17,872,672
New Building Fund	7,114,667	
Campaign Initiative Fund	2,516,067	3,218,169
Other	<u>227,917</u>	<u>9,990</u>
Total	<u>\$109,387,828</u>	<u>\$ 87,347,641</u>

**10. 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.

**11. CONCENTRATIONS**

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

During 2021, the Organization received approximately 16.4% and 16.4% of its contributions from two individual donors. As of December 31, 2021, approximately 18.4%, 14.5%, and 14.3% of promises to give were from three individual donors.

During 2020, the Organization received approximately 18.9%, 12.0%, and 10.8% of its contributions from three individual donors. As of December 31, 2020, approximately 22.5% of promises to give were from one individual donor.

## **12. RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2021 and 2020, the Organization received \$16,337,753 and \$2,199,905, 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 \$19,089,305 and \$10,723,093 as of December 31, 2021 and 2020, respectively.

In 2020, the Organization and the AOG combined their individual CEO positions into one shared position. See Note 3 for information on transactions between the Organization and the AOG.

## **13. RETIREMENT PLAN**

The Organization had adopted an SEP-IRA defined contribution retirement plan for its employees. Subject to meeting the minimum annual earnings level of \$600 established by the Internal Revenue Service, all employees were eligible for participation in the plan effective on the first day of their employment. Subject to federal limitations, the Organization made a contribution, determined each pay period, of 11.1% of the employee's non-retirement compensation. For the year ended 2020, the Organization's total contributions were \$283,651. This plan effectively dissolved on December 31, 2020.

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 \$145,019 for the year ended December 31, 2021.