

**THE ASSOCIATION OF
GRADUATES OF THE UNITED
STATES MILITARY ACADEMY**
d/b/a West Point Association of Graduates

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

THE ASSOCIATION OF GRADUATES OF THE UNITED STATES MILITARY ACADEMY

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Association of Graduates of the
United States Military Academy

We have audited the accompanying statements of financial position of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates, as of December 31, 2009 and 2008, and the related statements of activities, net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Graduates of the United States Military Academy as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Albany, New York
May 14, 2010

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
STATEMENTS OF FINANCIAL POSITION**

	December 31,	
	2009	2008
ASSETS		
Cash	\$ 1,454,312	\$ 1,126,862
Pledges receivable, net	14,279,002	13,453,860
Inventories and other assets	613,568	620,066
Investments	152,851,907	129,560,524
Investments restricted by agreements	4,262,388	4,195,474
Split interest trusts	16,485,795	15,570,725
Building and equipment, net	<u>6,036,779</u>	<u>6,311,272</u>
Total assets	<u>\$ 195,983,751</u>	<u>\$ 170,838,783</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 975,565	\$ 1,081,151
Proffer payable	396,567	585,327
Deferred obligations and revenue	2,572,421	2,699,450
Liabilities - remainder trusts	2,165,419	2,094,583
Due to classes	2,276,223	1,926,495
Deferred compensation	<u>338,548</u>	<u>287,224</u>
Total liabilities	<u>8,724,743</u>	<u>8,674,230</u>
NET ASSETS		
Unrestricted	20,002,951	15,795,883
Temporarily restricted	82,221,701	64,846,156
Permanently restricted	<u>85,034,356</u>	<u>81,522,514</u>
Total net assets	<u>187,259,008</u>	<u>162,164,553</u>
Total liabilities and net assets	<u>\$ 195,983,751</u>	<u>\$ 170,838,783</u>

See notes to financial statements.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
STATEMENTS OF ACTIVITIES**

	Years Ended December 31,							
	2009				2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support								
Contributions	\$ 996,850	\$ 15,681,621	\$ 2,495,806	\$ 19,174,277	\$ 80,256	\$ 13,518,283	\$ 2,642,397	\$ 16,240,936
Bequests	633,488	1,524,974	321,480	2,479,942	-	3,122,910	660,396	3,783,306
Royalties	351,481	151,235	4,613	507,329	1,840,681	491,060	5,802	2,337,543
Return on investments	1,524,326	1,827,983	-	3,352,309	2,481,634	3,987,715	-	6,469,349
Sales - gift shop	1,396,028	-	-	1,396,028	1,216,868	-	-	1,216,868
Subscriptions and advertising	606,529	-	-	606,529	716,503	-	-	716,503
Alumni activities	663,746	2,604	-	666,350	811,533	1,129	-	812,662
Other	272,238	(11,090)	26,709	287,857	226,303	(18,747)	21,493	229,049
Recovery of (provision) for uncollectible pledges, net	-	865,862	(302,093)	563,769	-	1,788,816	1,692,897	3,481,713
Net assets released from restriction								
Satisfaction of program restriction	12,729,057	(12,729,057)	-	-	14,498,750	(14,498,750)	-	-
Reimbursement for administrative and development expenses	3,006,449	(2,755,517)	(250,932)	-	6,303,825	(5,236,681)	(1,067,144)	-
Transfers, net	204,485	(1,420,744)	1,216,259	-	618,318	(1,603,677)	985,359	-
Total revenue and support	22,384,677	3,137,871	3,511,842	29,034,390	28,794,671	1,552,058	4,941,200	35,287,929
Expenses								
Program services								
Alumni services	2,660,090	-	-	2,660,090	2,902,736	-	-	2,902,736
Educational and historical	12,807,416	-	-	12,807,416	14,501,454	-	-	14,501,454
Publications	695,500	-	-	695,500	815,934	-	-	815,934
Supporting services								
Management and administration	2,219,604	-	-	2,219,604	2,802,186	-	-	2,802,186
Fund raising	4,371,627	-	-	4,371,627	4,336,835	-	-	4,336,835
Total expenses	22,754,237	-	-	22,754,237	25,359,145	-	-	25,359,145
Change in net assets before investment transactions	(369,560)	3,137,871	3,511,842	6,280,153	3,435,526	1,552,058	4,941,200	9,928,784
Realized and unrealized gain (loss) on investments	4,576,628	14,237,674	-	18,814,302	(11,715,646)	(33,388,493)	-	(45,104,139)
Change in net assets	\$ 4,207,068	\$ 17,375,545	\$ 3,511,842	\$ 25,094,455	\$ (8,280,120)	\$ (31,836,435)	\$ 4,941,200	\$ (35,175,355)

See notes to financial statements.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
STATEMENTS OF NET ASSETS
Years Ended December 31, 2009 and 2008**

	<u>Total Unrestricted</u>	<u>Total Temporarily Restricted</u>	<u>Total Permanently Restricted</u>	<u>Total</u>
Fund balance, December 31, 2007	\$ 24,076,003	\$ 81,364,777	\$ 91,899,128	\$ 197,339,908
Net (decrease) increase in fund balance for 2008	(8,280,120)	(31,836,435)	4,941,200	(35,175,355)
Transfers	<u>-</u>	<u>15,317,814</u>	<u>(15,317,814)</u>	<u>-</u>
Fund balance, December 31, 2008	15,795,883	64,846,156	81,522,514	162,164,553
Net increase in fund balance for 2009	<u>4,207,068</u>	<u>17,375,545</u>	<u>3,511,842</u>	<u>25,094,455</u>
Fund balance, December 31, 2009	<u>\$ 20,002,951</u>	<u>\$ 82,221,701</u>	<u>\$ 85,034,356</u>	<u>\$ 187,259,008</u>

See notes to financial statements.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
STATEMENTS OF CASH FLOWS**

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 25,094,455	\$ (35,175,355)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of securities	(710,422)	(4,444,789)
Contributions restricted for long-term investment	(1,367,825)	(3,120,194)
Net realized and unrealized (gains) losses on investments	(18,996,913)	45,331,172
Depreciation on building and equipment	313,937	386,382
(Increase) decrease in value of trusts	(1,220,042)	4,105,760
Changes in:		
Pledges receivable	(825,142)	4,611,215
Inventories and other assets	6,498	(50,498)
Accounts payable and accrued expenses	(105,586)	537,112
Proffer payable	(188,760)	427,324
Deferred obligations and revenue	(127,029)	(68,987)
Liabilities associated with charitable remainder trusts	70,836	(766,079)
Due to classes	349,728	(113,221)
Net cash provided by operating activities	<u>2,293,735</u>	<u>11,659,842</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(44,097,289)	(50,137,637)
Proceeds from the sale and maturity of investments	40,539,902	37,233,499
Purchase of building and equipment	(39,444)	(113,874)
Receipts from settlement of split interest agreements	156,666	-
Purchase of investments restricted for long-term purposes, net	106,055	(119,598)
Net cash used in investing activities	<u>(3,334,110)</u>	<u>(13,137,610)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	-	(2,345,450)
Proceeds from contributions restricted for investment in endowment	1,367,825	3,120,194
Net cash provided by financing activities	<u>1,367,825</u>	<u>774,744</u>
NET INCREASE (DECREASE) IN CASH	327,450	(703,024)
Cash, beginning of year	<u>1,126,862</u>	<u>1,829,886</u>
Cash, end of year	<u>\$ 1,454,312</u>	<u>\$ 1,126,862</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ -</u>	<u>\$ 99,389</u>

See notes to financial statements.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates, (“Association”) is an organization dedicated to furthering the ideals and promoting the welfare of the United States Military Academy (Academy). The Association is exempt from federal income tax under the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under Internal Revenue rules and has been classified as an organization that is not a private foundation.

Summary of Significant Accounting Policies

Basis of accounting:

The financial statements of the Association have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of presentation:

The Association follows accounting and reporting guidelines established by the Financial Accounting Standards Board (FASB). The Association records unconditional promises to give (pledges) as receivables and revenue, and in addition, distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. The Association has established standards for financial reporting, including the classification of resources into three classes of net assets: unrestricted, temporarily restricted and permanently restricted, based upon the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of such assets permit the Association to use all or part of the income earned on the assets for specific purposes.

Cash and cash equivalents:

The Association considers highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents include funds held in a sweep account in a financial institution.

The Association places its cash and cash equivalents with high quality financial institutions, balances generally exceed the FDIC insurance limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to \$100,000. In October 2008, the FDIC increased its insurance from \$100,000 per depositor to \$250,000, and to an unlimited amount for non-interest bearing accounts at participating institutions. The coverage increase, which is temporary, extends through December 31, 2013 for interest bearing accounts and June 30, 2010 for non-interest bearing accounts.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

Promises to give:

Unconditional promises to give (pledges) are recognized as contribution revenue in the period received and as assets. Promises to give are recorded at net realizable value and are discounted at an appropriate rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible promises to give is provided based upon management's judgment, including such factors as due date (aging), prior collection history, type of contribution, and nature of fundraising activity. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Proffer payable:

Proffer Payable represent unconditional promises to grant funds to the United States Military Academy that have been authorized prior to year end, but remain unpaid as of the statement of financial position date.

Split-interest agreements:

The Association is a party to various types of split-interest agreements whereby the donor makes an initial gift in which the Association has a beneficial interest but is not the sole beneficiary. These agreements include charitable remainder trusts, pooled life income funds and gift annuities.

Inventories:

Inventories consist of gift shop items and are stated at the lower of cost (first-in, first-out method) or market.

Valuation of Investment Portfolio:

The Association follows Financial Accounting Standards Board (FASB) guidance for Fair Value Measurement for investments, which establishes a framework for measuring fair value under generally accepted accounting principles, and also provides guidance regarding a fair value hierarchy. This hierarchy prioritizes information used to measure fair value and the effects of fair value measurements on earnings and provides for enhanced disclosures determined by the level within the hierarchy of information used in the valuation.

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell an asset occurs in the principal market for the asset, or in the absence of a principal market, the most advantageous market for the asset. The principal market is the market in which the reporting entity would sell or transfer the asset with the greatest volume or level of activity for the asset. In determining the principal market for an asset, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

Valuation of Investment Portfolio: (Continued)

The net asset value of a share in an alternative investment is calculated by dividing the total net assets of the fund by the total number of shares outstanding. The fair value method is used for determination of net asset value. The basis of fair value for underlying assets is as follows:

- Marketable securities listed on a national securities exchange are valued at the last sales price on the date of valuation or, if no sale occurred on such date, at the last bid price thereon.
- Marketable securities traded in the over-the-counter market are valued at the closing bid price on the date of valuation, or an average of the latest bid price and recent trading prices.
- Private capital securities are generally valued according to the “mark-to-market method” which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations or the income approach, in which market expectations of future cash flows or earnings are converted to a present value. However, in some instances, it may be most appropriate to value an investment at cost, if little has changed since the initial investment in the company. This valuation process is often used in the early years of investments in a private company, and in these instances cost is reflective of fair value.

Overall challenges to the economic environment have created significant financial market volatility and illiquidity. The Association is not immune to the impacts of these market conditions. It should be noted that it is at least possible that fair values could change rapidly.

Investments consist principally of marketable debt and equity securities and are carried at fair value at the date of the statement of financial position.

Investments are primarily pooled in investment portfolios containing multiple unrestricted, temporarily restricted and permanently restricted funds. On a quarterly basis investment income is allocated to the individual funds within the pool based upon the invested balance of each fund.

For endowments whose income is unrestricted or restricted for specific purposes, the Association uses a total return policy whereby a fixed percentage (4% for restricted and 5% for unrestricted in 2009 and 2008) of the prior twelve quarters’ market value of permanently restricted investments and their related temporarily restricted income accounts is available for distribution in the ensuing year for the intended endowment purposes. For endowments whose income accounts reflected negative balances at year end, the availability of distributions is limited to interest and dividend income earned by the endowment fund during the calendar year.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

Property and equipment:

Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using primarily the straight-line method and is based on the assets' estimated useful lives of between three and ten years for equipment and forty years for the building.

Donated property and securities:

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of donation. Donated marketable securities are recorded at their fair value at date of donation. Absent donor restrictions to the contrary, donated securities are sold immediately. Contributions for the year ended December 31, 2009, include approximately \$686,000 of donated securities (approximately \$1,441,000 in 2008).

Due to classes:

The Association maintains a commingled brokerage account consisting of cash and investments, on behalf of various graduating classes. These assets are recorded in the Statements of Financial Position as Investments, along with an offsetting liability. This liability is presented in the Statements of Financial Position as "Due to classes" in the approximate amounts of \$2,276,200 and \$1,926,500 at December 31, 2009 and 2008, respectively.

Restricted and unrestricted revenue:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions, and are reported as an increase in unrestricted, temporarily, or permanently restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Deferred obligations and revenue:

Deferred obligations and revenue consists of advance payments for subscriptions and advertising relating to the Association's publication, and obligations for payments relating to pooled life income funds and charitable gift annuities.

Tax status and expense:

The Association is classified for tax purposes as an organization under Section 501(c)(6) of the Internal Revenue Code and, except for unrelated business income (if any), is exempt from income taxes under Section 501(a) of the Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

Tax status and expense (Continued)

Effective January 1, 2009, the Association adopted guidance issued by the FASB regarding accounting for uncertainty in income taxes. The income tax positions taken by the Association for any years open under the various statutes of limitations are that the Association continues to be exempt from income taxes and that the Association earns revenues from certain activities which are considered unrelated business taxable income under the Internal Revenue Code. In both 2009 and 2008, however, unrelated business income (net of applicable expenses) resulted in no material tax expense. The adoption of this guidance did not impact the Association's financial position or results of operations. The Association believes that there are no other tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date. None of the Association's federal or state income tax returns is currently under examination by the Internal Revenue Service ("IRS") or state authorities. However fiscal years 2006 and later remain subject to examination by the IRS and New York State.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events:

Subsequent events have been evaluated through May 14, 2010, the date when the financial statements were available to be issued.

Reclassifications:

Certain 2008 financial statement line items have been reclassified to conform to the current year presentation.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable include unconditional promises to give. The Association recognizes potentially uncollectible pledges at their gross value and provides an allowance for the estimated uncollectible amount. Pledges receivable, net of the discount to present value (at rates ranging from 3% to 7%) and the allowance for uncollectible pledges, are as follows:

	December 31,	
	2009	2008
Receivable in less than one year	\$ 6,153,991	\$ 9,011,241
Receivable in one year to five years	12,353,282	9,748,429
Receivable in more than five years	<u>2,321,676</u>	<u>1,962,405</u>
Total unconditional promises to give	20,828,949	20,722,075
Less allowance for uncollectible pledges	(5,362,734)	(5,926,504)
Less discounts to net present value	<u>(1,187,213)</u>	<u>(1,341,711)</u>
Net pledges receivable	<u>\$ 14,279,002</u>	<u>\$ 13,453,860</u>

NOTE 3 – INVESTMENTS

Investments, including pooled life income funds and gift annuities, are presented in the financial statements at fair value and are categorized as follows:

	December 31,	
	2009	2008
Investments	\$ 152,851,907	\$ 129,560,524
Investments - pooled life income funds	2,130,592	2,423,125
Investments - gift annuities	1,922,709	1,672,842
Investments - gift annuity reserve	209,087	99,507
Investments restricted by agreements	<u>4,262,388</u>	<u>4,195,474</u>
	<u>\$ 157,114,295</u>	<u>\$ 133,755,998</u>

Investments are comprised of the following:

	December 31,	
	2009	2008
Short-term investments (money markets)	\$ 2,498,555	\$ 350,470
Fixed income securities	65,153,287	58,605,874
Equity securities	72,171,168	51,543,304
Alternative investments	16,665,072	22,894,254
Mutual funds	460,555	287,225
Other	<u>165,658</u>	<u>74,871</u>
	<u>\$ 157,114,295</u>	<u>\$ 133,755,998</u>

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3 – INVESTMENTS (Continued)

Return on investments is comprised of the following:

	December 31,	
	2009	2008
Unrestricted		
Interest, dividends and other	\$ 1,822,609	\$ 2,761,716
Investment expenses	<u>(298,283)</u>	<u>(280,082)</u>
	<u>\$ 1,524,326</u>	<u>\$ 2,481,634</u>
Temporarily restricted		
Interest, dividends and other	\$ 2,500,679	\$ 4,678,691
Investment expenses	<u>(672,696)</u>	<u>(690,976)</u>
	<u>\$ 1,827,983</u>	<u>\$ 3,987,715</u>

Gains and losses on investment transactions are comprised of the following:

	December 31,	
	2009	2008
Unrestricted		
Net realized losses on sale of investments	\$ (707,866)	\$ (469,121)
Net unrealized gains (losses) on investments	<u>5,284,494</u>	<u>(11,246,525)</u>
	<u>\$ 4,576,628</u>	<u>\$ (11,715,646)</u>
Temporarily restricted		
Net realized losses on sale of investments	\$ (2,307,820)	\$ (1,553,688)
Net unrealized gains (losses) on investments	<u>16,545,494</u>	<u>(31,834,805)</u>
	<u>\$ 14,237,674</u>	<u>\$ (33,388,493)</u>

Investment gains (losses) on permanently restricted net assets are reported as increases (decreases) in unrestricted or temporarily restricted net assets depending upon donor restrictions placed on the use of the investment income.

The Association has entered into several agreements with Commonfund, a non-profit investment manager, to invest in various partnerships. These agreements contain provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreements amounts to \$13,750,000 and the total amount of capital contributed to the partnerships by the Association as of December 31, 2009 was approximately \$7,156,000. This investment is included in alternative investments. As capital calls are received, other investments are sold and the proceeds and available cash are used to fulfill the capital call. In addition, the Association has entered into an agreement with AEW Capital Management, LP, to invest in a real estate investment trust. This agreement contains provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreement amounts to \$3,000,000. No capital had been contributed by the Association as of December 31, 2009.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3 – INVESTMENTS (Continued)

The level of fair value inputs used to measure investments is characterized in accordance with an established fair value hierarchy. Where inputs for an investment fall in more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's fair value measurement. Management uses judgment and considers factors specific to the investment in determining the significance of an input to a fair value measurement. The three levels of the fair value hierarchy and investments that fall into each of the levels are described as follows:

- *Level 1:* Level 1 inputs are unadjusted quoted market prices in active markets that are accessible at the measurement date for identical assets.
- *Level 2:* Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly.
- *Level 3:* Level 3 inputs are unobservable and cannot be corroborated by observable market data.

The following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2009 and 2008 where carrying value equals fair value:

	2009			
	Level 1	Level 2	Level 3	Total
Short-term investments (money markets)	\$ 2,454,481	\$ -	\$ -	\$ 2,454,481
Fixed income securities	62,285,122	-	-	62,285,122
Equity securities	16,988,218	53,832,801	-	70,821,019
Alternative investments	-	2,103,728	14,561,344	16,665,072
Mutual funds	460,555	-	-	460,555
Other	165,658	-	-	165,658
	<u>\$ 82,354,034</u>	<u>\$ 55,936,529</u>	<u>\$ 14,561,344</u>	<u>\$ 152,851,907</u>

	2008			
	Level 1	Level 2	Level 3	Total
Short-term investments (money markets)	\$ 304,862	\$ -	\$ -	\$ 304,862
Fixed income securities	55,467,335	-	-	55,467,335
Equity securities	12,298,250	38,233,727	-	50,531,977
Alternative investments	-	6,597,325	16,296,929	22,894,254
Mutual funds	287,225	-	-	287,225
Other	74,871	-	-	74,871
	<u>\$ 68,432,543</u>	<u>\$ 44,831,052</u>	<u>\$ 16,296,929</u>	<u>\$ 129,560,524</u>

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3 – INVESTMENTS (Continued)

The following table sets forth a summary of changes in fair value of investments measured using Level 3 inputs for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 16,296,929	\$ 15,809,197
Purchases and settlements, net	(976,306)	2,244,443
Total gains/(losses), realized and unrealized	<u>(759,279)</u>	<u>(1,756,711)</u>
Balance, end of year	<u>\$ 14,561,344</u>	<u>\$ 16,296,929</u>

NOTE 4 – SPLIT INTEREST TRUSTS AND INVESTMENTS RESTRICTED BY AGREEMENTS

The Association is the beneficiary of various split interest agreements and investments restricted by agreements as follows:

Irrevocable Trust

A donor has established an irrevocable trust held by a third party trustee. The trust consists of an investment portfolio. Pursuant to the trust agreement, the donor's designated beneficiary is entitled to the income earned on the trust during the beneficiary's lifetime and upon death the assets in the trust will be distributed to the Association to establish a permanently restricted fund. The present value of the estimated amount to be received was calculated using a discount rate of 6% and the applicable mortality table.

Remainder Trusts

Donors have established charitable remainder trusts naming the Association as the trustee. Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms (usually the designated beneficiary's lifetime). At the end of each trust's term, the remaining assets are available for the Association's use, subject to the donor-imposed restrictions. Assets held in charitable remainder trusts totaled \$4,478,123 at December 31, 2009 (\$4,055,852 in 2008) and are reported at fair value. On an annual basis the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$2,165,419 and \$2,094,583 at December 31, 2009 and 2008, respectively) is calculated using a discount rate and applicable mortality tables.

Donors have established charitable remainder trusts for which the Association is not the Trustee. The present value of the estimated beneficial interest to be received at the end of the trusts' terms (usually the designated beneficiary's lifetime) totaled \$6,287,127 at December 31, 2009 (\$6,114,909 at 2008).

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 4 – SPLIT INTEREST TRUSTS AND INVESTMENTS RESTRICTED BY AGREEMENTS
(Continued)

Perpetual Trust

A donor has established a perpetual trust under which the Association receives 35% of the Trust's 5% annual distribution. The net present value of future cash flows expected to be received from the Trust approximated \$980,000 at December 31, 2009 (\$903,000 in 2008).

Pooled Life Income Funds

The Association has a pooled life income fund whereby donors contribute into an investment pool and are assigned a specific number of units. The donor or designated beneficiary receives an allocation of income on a quarterly basis. Upon the death of the beneficiary, the value of the assigned units reverts to the Association. The Association's remainder interest in the assets received is measured at the fair value of the assets to be received discounted for the estimated time period until the death of the designated beneficiary using the applicable mortality tables. The liability for future payments is recorded as deferred obligations and approximated \$753,000 at December 31, 2009 (\$848,000 in 2008).

Gift Annuities

The Association receives certain gifts whereby it is contractually obligated to make periodic payments to the donor for the remainder of his or her life. In certain instances, the Association purchases annuity contracts from insurance companies to fund these obligations. Currently, gift annuity contributions are deposited into an investment portfolio at a financial institution. The assets received are recorded at fair value and an annuity payment liability is recorded as deferred obligations at the present value of the future cash flows expected to be paid to the designated beneficiary using the applicable mortality table. At December 31, 2009, deferred obligations associated with gift annuities approximated \$1,400,000 (\$1,392,000 in 2008).

As required by insurance law, the Association maintains an annuity reserve greater than 115% of associated liabilities. The reserve requirement is met using the specific assets and liabilities of the pooled life income funds and gift annuities as well as an additional reserve. At December 31, 2009, the Association's gift annuity and pooled life income fund assets and liabilities amounted to \$4,053,301 and \$2,153,587 respectively (\$4,095,967 and \$2,239,111 in 2008). At December 31, 2009 and 2008, the Association maintained sufficient assets in excess of liabilities to fulfill the requirement under the law. The Association maintains an additional reserve, included in investments, in a portfolio at a financial institution. At December 31, 2009, the fair value of the amount reserved was approximately \$209,000 (\$100,000 in 2008). The Association was in full compliance with reserve requirements under the insurance law at December 31, 2009 and 2008.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

**NOTE 4 – SPLIT INTEREST TRUSTS AND INVESTMENTS RESTRICTED BY AGREEMENTS
(Continued)**

Gift Annuities (Continued)

The change in split-interest trusts and investments restricted by agreements for 2009 and 2008 was as follows:

	<u>Split-Interest Trusts</u>				<u>Investments Restricted by Agreements</u>			
	<u>Irrevocable Trust</u>	<u>Remainder Trusts</u>	<u>Perpetual Trust</u>	<u>Total Split Interest Trusts</u>	<u>Pooled Life Income Funds</u>	<u>Gift Annuities</u>	<u>Reserve</u>	<u>Total Investments Restricted By Agreements</u>
Balance at December 31, 2007	\$ 5,489,000	\$ 9,344,946	\$ 1,188,756	\$ 16,022,702	\$ 2,544,690	\$ 2,131,702	\$ 95,974	\$ 4,772,366
Contributions	-	3,003,450	-	3,003,450	-	119,598	-	119,598
Distributions	-	-	-	-	(15,930)	(30,227)	-	(46,157)
Change in value	<u>(992,340)</u>	<u>(2,177,635)</u>	<u>(285,452)</u>	<u>(3,455,427)</u>	<u>(105,635)</u>	<u>(548,231)</u>	<u>3,533</u>	<u>(650,333)</u>
Balance at December 31, 2008	4,496,660	10,170,761	903,304	15,570,725	2,423,125	1,672,842	99,507	4,195,474
Contributions	-	24,663	-	24,663	-	171,704	107,039	278,743
Distributions	-	(156,666)	-	(156,666)	(335,339)	(42,420)	(595)	(378,354)
Change in value	<u>243,403</u>	<u>726,492</u>	<u>77,178</u>	<u>1,047,073</u>	<u>42,806</u>	<u>120,583</u>	<u>3,136</u>	<u>166,525</u>
Balance at December 31, 2009	<u>\$ 4,740,063</u>	<u>\$ 10,765,250</u>	<u>\$ 980,482</u>	<u>\$ 16,485,795</u>	<u>\$ 2,130,592</u>	<u>\$ 1,922,709</u>	<u>\$ 209,087</u>	<u>\$ 4,262,388</u>

NOTE 5 – BUILDING AND EQUIPMENT

A summary of building and equipment is as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Equipment	\$ 1,280,097	\$ 1,240,653
Building	<u>9,480,057</u>	<u>9,480,057</u>
	10,760,154	10,720,710
Less accumulated depreciation	<u>4,723,375</u>	<u>4,409,438</u>
	<u>\$ 6,036,779</u>	<u>\$ 6,311,272</u>

Depreciation expense for the year ended December 31, 2009 was approximately \$313,900 (\$386,400 in 2008).

NOTE 6 – PROFFER PAYABLE

The Association, in accordance with Army Regulations, proffers gifts it intends to make to the United States Military Academy, similar to making a promise to give. Proffers are recorded as liabilities at the time they are made and generally are paid within a one year period.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 7 – LINE OF CREDIT

The Association has entered into a line of credit with a bank. It is a working capital support agreement dated September 4, 2009 with an original face value of \$3,000,000 and interest rate options of LIBOR plus 1.4% or Prime Rate minus 1.25%. There was no outstanding balance on the working capital line at December 31, 2009 or 2008.

The Association incurred no interest expense for the year ended December 31, 2009 (approximately \$99,400 in 2008).

NOTE 8 – DEFERRED COMPENSATION

The Association has arrangements with its executive officers whereby specified amounts of their compensation are deferred. These amounts are invested on behalf of the executives and are payable upon their retirement. At December 31, 2009, the Association's obligation pursuant to these arrangements was approximately \$338,500 (\$287,200 in 2008).

NOTE 9 – PENSION PLAN

The Association sponsors a defined contribution retirement plan under IRC 403(b) that allows for contributions by employees as well as the Association. Substantially all employees are eligible to participate in this plan. The Association's contributions to the plan are based on a percentage of the employee's elective contribution and totaled approximately \$225,000 for the year ended December 31, 2009 (\$235,700 for 2008).

NOTE 10 – PROPERTY LEASE

In 1992, the Association entered into a fifty year lease with the Secretary of the Army for approximately 1.5 acres of land on which its alumni center was constructed. This lease has a renewal option for an additional fifty years and is revocable by the Secretary of the Army. The land is being leased at no charge to the Association.

NOTE 11 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the support of various projects related to the United States Military Academy and its graduates.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 11 – RESTRICTIONS ON NET ASSETS (Continued)

Permanently restricted net assets consist of endowment funds and are restricted to the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Permanent endowment with no restrictions on the use of income	\$ 23,359,511	\$ 22,112,644
Permanent endowments with income restricted to the support of projects and programs related to the United States Military Academy and its graduates	<u>61,674,845</u>	<u>59,409,870</u>
	<u>\$ 85,034,356</u>	<u>\$ 81,522,514</u>

NOTE 12 – TRANSFERS

Transfers are made among the net asset classes to reclassify previously recognized revenue that has been re-allocated based upon the occurrence of certain events or the determination that a transfer is needed to more accurately reflect the intent of a contribution.

NOTE 13 – FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 14 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following program and supporting services are included in the accompanying financial statements:

Publications - Disseminates information on the history, activities, objectives and methods of the United States Military Academy through two publications.

Management and General - Relates to the overall direction of the Association and includes expenses for the operation of the gift shop.

Fund Raising - Provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations.

Educational and Historical - Comprises activities for the dissemination of information on the history, objectives and methods of the United States Military Academy to include the encouragement of the study of military science and leadership and to enhance the image of the United States Military Academy. The Association recorded approximately \$12,000,000 of proffers to the United States Military Academy in 2009 (\$14,000,000 in 2008), related to educational and historical programs and support services.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 14 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES (Continued)

Alumni Services - Encompasses activities and services provided for living graduates including the maintenance of detailed biographical and historical records on graduates of the United States Military Academy.

Total programming and supporting services are comprised of the following expense categories:

	<u>2009</u>	<u>2008</u>
Grants to USMA	\$ 12,589,419	\$ 14,426,825
Salaries	4,786,974	4,885,580
Benefits	828,225	829,061
Professional services	706,566	833,013
Printing	361,981	453,053
Postage and shipping	252,332	330,924
Cost of goods sold	698,789	626,357
Employee travel	167,232	199,605
Awards and alumni events	302,171	380,863
Donor recognition expenses	156,101	220,151
Donor acquisition	659,976	584,970
Office expenses	106,256	129,841
Building expenses	282,982	337,338
Depreciation	307,138	379,582
All other	548,096	741,982
Total expense	<u>\$ 22,754,237</u>	<u>\$ 25,359,145</u>

NOTE 15 – ENDOWMENT

In 1978, the State of New York enacted portions of the Uniform Management of Institutional Funds Act (UMIFA). Under the Act, not-for-profit organizations were provided uniform rules relating to the investment of funds donated as “endowment” to these organizations. Among its many provisions, the Act initiated the concept of total return expenditure of endowment assets for charitable program purposes, expressly permitting the prudent expenditure of both appreciation and income, and replacing the prior law that only investment income (such as interest and dividends) could be expensed from endowments. Under this concept, investment growth (or appreciation) and income could be utilized for program purposes, subject to the rule that an endowment fund could not be expended below “historical dollar value” (generally, the amount of the donor’s original gift). The Association is subject to and is in conformity with all requirements under UMIFA.

In January 2009, the Association adopted newly effective guidance under generally accepted accounting principles requiring additional disclosures about an organization’s endowment funds.

**THE ASSOCIATION OF GRADUATES OF THE
UNITED STATES MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 15 – ENDOWMENT (Continued)

Endowment net asset roll-forward as of December 31, 2009 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 95,548	\$ 81,522,514	\$ 81,618,062
Contributions	67,032	2,848,607	2,915,639
Investment income and net appreciation	11,450,050	-	11,450,050
Transfers, net	<u>1,122,745</u>	<u>663,235</u>	<u>1,785,980</u>
Endowment net assets, end of year	<u><u>\$ 12,735,375</u></u>	<u><u>\$ 85,034,356</u></u>	<u><u>\$ 97,769,731</u></u>