

**The Association of Graduates of  
the United States Military  
Academy  
d/b/a West Point Association of Graduates**

Financial Statements

December 31, 2011 and 2010



# **The Association of Graduates of the United States Military Academy**

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Table of Contents

December 31, 2011 and 2010

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6

## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates (the "Association"), as of December 31, 2011 and 2010, and the related statement 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, 2011 and 2010 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.

*ParenteBeard LLC*

New York, New York  
May 4, 2012

# The Association of Graduates of the United States Military Academy

## Statement of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
<b>Assets</b>		
Cash	\$ 3,964,736	\$ 2,750,905
Pledges receivable, net	23,400,683	17,973,103
Inventories and other assets	435,702	549,862
Investments	183,496,989	176,028,241
Split interest and other trusts	23,759,771	22,167,020
Investments restricted by agreements	5,068,459	4,885,949
Building and equipment, net	<u>5,567,917</u>	<u>5,839,471</u>
Total assets	<u>\$ 245,694,257</u>	<u>\$ 230,194,551</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 988,393	\$ 1,111,096
Proffer payable	1,578,398	735,720
Deferred obligations and revenue	3,153,028	2,993,868
Liabilities - remainder trusts	3,017,545	2,525,837
Due to classes	2,545,656	2,463,682
Deferred compensation	<u>393,737</u>	<u>434,082</u>
Total liabilities	<u>11,676,757</u>	<u>10,264,285</u>
<b>Net Assets</b>		
Unrestricted	19,514,947	21,404,508
Temporarily restricted	114,883,900	109,923,098
Permanently restricted	<u>99,618,653</u>	<u>88,602,660</u>
Total net assets	<u>234,017,500</u>	<u>219,930,266</u>
Total liabilities and net assets	<u>\$ 245,694,257</u>	<u>\$ 230,194,551</u>

See notes to financial statements

# The Association of Graduates of the United States Military Academy

## Statement of Activities

Years Ended December 31, 2011 and 2010

	Years Ended December 31							
	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
Contributions	\$ 446,704	\$ 28,026,196	\$ 6,638,649	\$ 35,111,549	\$ 326,679	\$ 27,443,008	\$ 5,984,630	\$ 33,754,317
Bequests	286,334	478,732	308,987	1,074,053	411,643	2,512,034	20,178	2,943,855
Royalties	684,824	144,868	15,069	844,761	479,248	143,702	18,328	641,278
Interest and dividends	2,310,208	1,891,216		4,201,424	1,558,648	2,284,093	-	3,842,741
Sales - gift shop	1,510,943			1,510,943	1,408,742	-	-	1,408,742
Subscriptions and advertising	264,442			264,442	586,807	-	-	586,807
Alumni activities	1,264,204	61,997		1,326,201	877,794	59,901	-	937,695
Other	241,225	(5,682)	15,000	250,543	273,262	40,527	20,039	333,828
<b>Net Assets Released from Restriction</b>								
Satisfaction of program restriction	13,299,444	(13,296,944)	(2,500)	-	11,386,823	(11,381,823)	(5,000)	-
Reimbursement for administrative and development expenses	2,933,183	(2,437,745)	(495,438)	-	3,585,191	(3,183,426)	(401,765)	-
Transfers, net	282,489	(5,426,729)	5,144,240	-	181,013	1,198,659	(1,379,672)	-
<b>Total revenue and support</b>	<b>23,524,000</b>	<b>9,435,909</b>	<b>11,624,007</b>	<b>44,583,916</b>	<b>21,075,850</b>	<b>19,116,675</b>	<b>4,256,738</b>	<b>44,449,263</b>
<b>Expenses</b>								
Program services								
Alumni services	3,599,455	-	-	3,599,455	4,475,864	-	-	4,475,864
Educational and historical	13,360,062	-	-	13,360,062	11,536,133	-	-	11,536,133
Publications	944,066	-	-	944,066	693,018	-	-	693,018
Provision for uncollectible pledges, net	-	1,926,778	608,014	2,534,792	-	1,269,838	678,596	1,948,434
Supporting services								
Management and administration	916,486	-	-	916,486	826,246	-	-	826,246
Fund raising	5,538,278	-	-	5,538,278	4,777,180	-	-	4,777,180
<b>Total expenses</b>	<b>24,358,347</b>	<b>1,926,778</b>	<b>608,014</b>	<b>26,893,139</b>	<b>22,308,441</b>	<b>1,269,838</b>	<b>678,596</b>	<b>24,256,875</b>
<b>Change in Net Assets before Investment Transactions</b>	<b>(834,347)</b>	<b>7,509,131</b>	<b>11,015,993</b>	<b>17,690,777</b>	<b>(1,232,591)</b>	<b>17,846,837</b>	<b>3,578,142</b>	<b>20,192,388</b>
<b>Realized and Unrealized (Loss) Gain on Investments</b>	<b>(1,055,214)</b>	<b>(2,548,329)</b>	<b>-</b>	<b>(3,603,543)</b>	<b>2,636,353</b>	<b>9,841,841</b>	<b>-</b>	<b>12,478,194</b>
<b>Change in Net Assets</b>	<b>\$ (1,889,561)</b>	<b>\$ 4,960,802</b>	<b>\$ 11,015,993</b>	<b>\$ 14,087,234</b>	<b>\$ 1,403,762</b>	<b>\$ 27,688,678</b>	<b>\$ 3,578,142</b>	<b>\$ 32,670,582</b>

See notes to financial statements

## The Association of Graduates of the United States Military Academy

### Statement of Net Assets

Years Ended December 31, 2011 and 2010

	<u>Total Unrestricted</u>	<u>Total Temporarily Restricted</u>	<u>Total Permanently Restricted</u>	<u>Total</u>
<b>Net Assets, January 1, 2010</b>	\$ 20,002,951	\$ 82,221,701	\$ 85,034,356	\$ 187,259,008
Net increase in net assets for 2010	1,403,762	27,688,678	3,578,142	32,670,582
Reclassification Adjustment	<u>(2,205)</u>	<u>12,719</u>	<u>(9,838)</u>	<u>676</u>
<b>Net Assets, December 31, 2010</b>	21,404,508	109,923,098	88,602,660	219,930,266
Net increase/(decrease) in net assets for 2011	<u>(1,889,561)</u>	<u>4,960,802</u>	<u>11,015,993</u>	<u>14,087,234</u>
<b>Net Assets, December 31, 2011</b>	<u><u>\$ 19,514,947</u></u>	<u><u>\$ 114,883,900</u></u>	<u><u>\$ 99,618,653</u></u>	<u><u>\$ 234,017,500</u></u>

See notes to financial statements

# The Association of Graduates of the United States Military Academy

## Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 14,087,234	\$ 32,670,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of securities and other	(2,312,153)	(1,539,329)
Contributions restricted for long-term investment	(6,977,705)	(6,043,175)
Net realized and unrealized loss (gain) on investments	3,603,543	(12,478,194)
Depreciation on building and equipment	330,857	331,289
Increase in value of trusts	(433,592)	(5,599,544)
Changes in:		
Unrestricted and temporarily restricted pledges receivable	(4,019,848)	(1,908,920)
Inventories and other assets	114,160	63,706
Accounts payable, accrued expenses and other	(163,047)	231,066
Proffer payable	842,678	339,153
Deferred obligations and revenue	159,160	421,447
Liabilities associated with charitable remainder trusts	491,708	360,418
Due to classes	81,974	187,459
Net cash provided by operating activities	<u>5,804,969</u>	<u>7,035,958</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(49,973,745)	(69,686,271)
Proceeds from sale and maturity of investments	38,506,451	59,331,153
Purchase of building and equipment	(35,486)	(142,483)
Receipts from settlement of split interest agreements	-	109,369
Purchase of investments restricted by agreements	1,341,669	390,873
Net cash used in investing activities	<u>(10,161,111)</u>	<u>(9,997,359)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions	6,977,704	6,043,175
Changes in permanently restricted pledge receivable	(1,407,731)	(1,785,181)
Net cash provided by financing activities	<u>5,569,973</u>	<u>4,257,994</u>
<b>Net Increase in Cash</b>	1,213,831	1,296,593
<b>Cash and Cash Equivalents, Beginning</b>	<u>2,750,905</u>	<u>1,454,312</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 3,964,736</u>	<u>\$ 2,750,905</u>

See notes to financial statements

# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

## **1. Organization and Summary of Significant Accounting Policies**

The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates, (the "Association") is an organization dedicated to furthering the ideals and promoting the welfare of the United States Military Academy (the "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.

### **Basis of Accounting**

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

### **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, excluding amounts held in Investments. 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 where, balances generally exceed the Federal Deposit Insurance Corporation (the "FDIC") insurance limits. Accounts at each institution are insured by the FDIC up to \$250,000 for interest bearing accounts and to an unlimited amount for non-interest bearing accounts through December 31, 2012.



# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

## **Promises to Give**

Unconditional written 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 represents 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.

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 accepted and are generally paid within a one year period.

## **Split-Interest and Other Trust Agreements**

The Association is a party to various types of split-interest and other trust 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, gift annuities, other types of trusts and irrevocable bequests and are reported at fair value.

## **Inventories**

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

## **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 five 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, 2011, include \$1,592,144 of donated securities (\$1,691,780 in 2010).

# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

## **Due to Classes**

The Association maintains commingled brokerage accounts consisting of cash and investments, on behalf of various graduated classes. These assets are recorded in the statement of financial position as investments, along with an offsetting liability. This liability is presented in the statement of financial position as "Due to classes" in the amounts of \$2,545,656 and \$2,463,682 at December 31, 2011 and 2010, 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)(3) 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.

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 2011 and 2010, 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 2007 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.

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

## Subsequent Events

Subsequent events have been evaluated for recognition or disclosure through May 4, 2012 the date when the financial statements were available to be issued.

## Reclassifications

Certain financial information has been reclassified to conform to the current year presentation.

## 2. Pledges Receivable

Pledges receivable are written unconditional promises to give. The Association recognizes potentially uncollectible pledges and provides an allowance for the estimated uncollectible amount. Pledges receivable, net of the discount to present value (at risk adjusted rates) and the allowance for uncollectible pledges, are as follows:

	December 31,	
	2011	2010
Receivable in less than one year	\$ 9,018,238	\$ 7,673,332
Receivable in one year to five years	24,981,247	16,055,126
Receivable in more than five years	2,200,566	3,096,793
Total unconditional promises to give	36,200,051	26,825,251
Less allowance for uncollectible pledges	(9,845,961)	(7,311,169)
Less discounts to net present value	(2,953,407)	(1,540,979)
Total	<u>\$ 23,400,683</u>	<u>\$ 17,973,103</u>

## 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,	
	2011	2010
Investments	\$ 183,496,989	\$ 176,028,241
Investments – pooled life income funds	2,251,476	2,196,859
Investments – gift annuities	2,606,046	2,477,371
Investments – gift annuity reserve	210,937	211,719
Investments restricted by agreements	5,068,459	4,885,949
Total	<u>\$ 188,565,448</u>	<u>\$ 180,914,190</u>

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

Investments are comprised of the following:

	December 31,	
	2011	2010
Short-term investments (money markets)	\$ 619,063	\$ 920,996
Fixed income securities	56,624,977	69,496,535
Equity securities	98,822,223	87,793,624
Alternative investments	32,241,139	22,527,590
Other	258,046	175,445
Total	<u>\$ 188,565,448</u>	<u>\$ 180,914,190</u>

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

	December 31,	
	2011	2010
Unrestricted		
Net realized gains (losses) on sale of investments	\$ 420,597	\$ (199,558)
Net unrealized (losses) gains on investments	(1,475,811)	2,835,911
Total unrestricted	<u>(1,055,214)</u>	<u>2,636,353</u>
Temporarily restricted		
Net realized gains (losses) on sale of investments	1,640,678	(939,797)
Net unrealized (losses) gains on investments	(4,189,007)	10,781,638
Total temporarily restricted	<u>\$ (2,548,329)</u>	<u>\$ 9,841,841</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, 2011 was approximately \$10,211,673. 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. Capital calls have been funded by the Association as of December 31, 2011 for approximately \$1,471,795.

# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

The Association follows 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 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 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 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.

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

The following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2011 and 2010 where carrying value equals fair value (refer to Note 4 for split-interests and other trusts):

	<b>2011</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Short-term investments	\$ 619,063	\$ -	\$ -	\$ 619,063
Fixed income securities				
Mortgage backed securities	29,401,681	-	-	29,401,681
Corporate securities	23,646,330	-	-	23,646,330
Government securities	16,886,361	103,321	-	16,989,682
Equity securities				
Domestic equity	14,962,102	34,274,315	-	49,236,417
International equity	18,877,804	17,295,286	-	36,173,090
Alternative investments				
Limited Partnerships	-	-	18,518,945	18,518,945
Mutual funds	-	-	9,429,731	9,429,731
Real estate	-	2,879,296	1,413,167	4,292,463
Other	258,046	-	-	258,046
<b>Total</b>	<b>\$ 104,651,387</b>	<b>\$ 54,552,218</b>	<b>\$ 29,361,843</b>	<b>\$ 188,565,448</b>
	<b>2010</b>			
Short-term investments	\$ 920,996	\$ -	\$ -	\$ 920,996
Fixed income securities				
Mortgage backed securities	33,947,886	-	-	33,947,886
Corporate securities	20,306,528	-	-	20,306,528
Government securities	15,242,121	-	-	15,242,121
Equity securities				
Domestic equity	7,998,985	41,915,746	-	49,914,731
International equity	18,512,197	19,366,696	-	37,878,893
Alternative investments				
Limited Partnerships	-	-	11,484,756	11,484,756
Mutual funds	-	-	8,010,498	8,010,498
Real estate	-	2,143,214	889,123	3,032,337
Other	175,444	-	-	175,444
<b>Total</b>	<b>\$ 97,104,157</b>	<b>\$ 63,425,656</b>	<b>\$ 20,384,377</b>	<b>\$ 180,914,190</b>

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

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>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 20,384,377	\$ 14,561,344
Purchases and settlements, net	7,314,017	5,138,740
Total gains, realized and unrealized	<u>1,663,449</u>	<u>684,293</u>
Balance, end of year	<u>\$ 29,361,843</u>	<u>\$ 20,384,377</u>

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 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 proportional invested balance of each fund.

#### 4. Split Interest Trusts, Other Trusts and Investments Restricted by Agreements

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

##### Irrevocable Trusts and Others

Donors have established irrevocable trusts held by third party trustees. The trusts consist of various investment portfolios. Pursuant to the trust agreements, the donors 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 available to the Association. The present value of the estimated amount to be received was calculated using a risk adjusted discount rate (approximately 5.5%) and the applicable mortality table and is \$10,629,482 at December 31, 2011 (\$9,768,029 at 2010).

##### 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 \$5,519,431 at December 31, 2011 (\$4,680,946 in 2010) and are recorded at estimated realizable 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 (\$3,017,545 and \$2,525,837 at December 31, 2011 and 2010, respectively) is calculated using a discount rate (approximately 3%) and applicable mortality tables.

# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

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 \$6,650,881 at December 31, 2011 (\$6,691,363 at 2010).

## **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 \$959,977 at December 31, 2011 (\$1,026,681 in 2010).

## **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. Assets held in pooled life income funds totaled \$2,251,476 at December 31, 2011 (\$2,196,859 in 2010). The liability for future payments is recorded as deferred obligations and approximated \$949,385 at December 31, 2011 (\$961,000 in 2010).

## **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. 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. Assets held in gift annuities accounts totaled \$2,606,047 at December 31, 2011 (\$2,477,371 in 2010). At December 31, 2011, deferred obligations associated with gift annuities approximated \$1,834,285 (\$1,650,724 in 2010).

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, 2011, the Association's gift annuity and pooled life income fund assets and liabilities amounted to \$4,857,523 and \$2,783,670 respectively (\$4,674,230 and \$2,611,275 in 2010). At December 31, 2011 and 2010, 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, 2011, the fair value of the amount reserved was approximately \$210,937 (\$211,719 in 2010). The Association was in full compliance with reserve requirements under the insurance law at December 31, 2011 and 2010.



# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

The split-interest and other trusts are considered level 3 investments as defined in Note 3. The changes in split-interest and other trusts for 2011 and 2010 were as follows:

	<b>Split-Interest and Other Trusts</b>			<b>Total Split Interest &amp; Other Trusts</b>
	<b>Irrevocable Trusts</b>	<b>Remainder Trusts</b>	<b>Perpetual Trust</b>	
Balance at December 31, 2009	\$ 4,740,063	\$ 10,765,250	\$ 980,482	\$ 16,485,795
Contributions	4,702,200	309,018	-	5,011,218
Distributions	-	(109,369)	-	(109,369)
Change in value	325,766	407,410	46,199	779,375
Balance at December 31, 2010	9,768,029	11,372,309	1,026,681	22,167,019
Contributions	421,557	999,466	-	1,421,023
Change in value	439,896	(201,463)	(66,704)	-
Balance at December 31, 2011	<u>\$ 10,629,482</u>	<u>\$ 12,170,312</u>	<u>\$ 959,977</u>	<u>\$ 23,588,042</u>

The changes in investments restricted by agreements for 2011 and 2010 were as follows:

	<b>Investments Restricted by Agreements</b>			<b>Total Investments Restricted by Agreements</b>
	<b>Pooled Life Income Funds</b>	<b>Gift Annuities</b>	<b>Reserve</b>	
Balance at December 31, 2009	\$ 2,130,592	\$ 1,922,709	\$ 209,087	4,262,388
Contributions	-	390,873	-	390,873
Distributions	-	(20,246)	-	(20,246)
Change in value	66,267	184,035	2,632	252,934
Balance at December 31, 2010	2,196,859	2,477,371	211,719	4,885,949
Contributions	-	446,571	-	446,571
Distributions	-	(104,369)	-	(104,369)
Change in value	54,617	(213,527)	(782)	(159,692)
Balance at December 31, 2011	<u>\$ 2,251,476</u>	<u>\$ 2,606,046</u>	<u>\$ 210,937</u>	<u>\$ 5,068,459</u>

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

## 5. Building and Equipment

A summary of building and equipment is as follows:

	December 31,	
	2011	2010
Equipment	\$ 538,120	\$ 1,346,504
Building	9,480,057	9,480,057
	10,018,177	10,826,561
Less accumulated depreciation	4,450,260	4,987,090
Total	<u>\$ 5,567,917</u>	<u>\$ 5,839,471</u>

Depreciation expense was \$330,857 and \$331,289 as of December 31, 2011 and 2010, respectively.

## 6. Lines of Credit

The Association has entered into a \$4,000,000 line of credit and a \$ 1,000,000 automated clearing house facility with a bank. These lines were established under a working capital support agreement dated July 1, 2011, with interest rate options of LIBOR plus 1.4% or Prime Rate minus 1.25%. There were no outstanding balances on these lines at December 31, 2011 or 2010. Credit lines expire on June 30, 2012.

The Association incurred no interest expense for the years ended December 31, 2011 and 2010.

## 7. 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, 2011, the Association's obligation pursuant to these arrangements was approximately \$393,737 (\$434,082 in 2010).

## 8. 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 \$246,301 for the year ended December 31, 2011 (\$238,000 for 2010).

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

## 9. 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.

## 10. 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.

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

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Permanent endowment with no restrictions on the use of income	\$ 24,374,859	\$ 26,561,777
Permanent endowments with income restricted to the support of projects and programs related to the United States Military Academy and its graduates	<u>75,243,794</u>	<u>62,040,883</u>
Total	<u>\$ 99,618,653</u>	<u>\$ 88,602,660</u>

## 11. 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.

## 12. 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.

# The Association of Graduates of the United States Military Academy

Notes to Financial Statements  
December 31, 2011 and 2010

## 13. 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 purpose of the United States Military Academy through certain publications.

**Management and Administration** - Relates to the overall administration of the Association.

**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 and objectives of the United States Military Academy ("USMA") to include the encouragement of the study of leadership and to enhance the image of the United States Military Academy. The Association recorded \$13,241,685 of proffers to the United States Military Academy in 2011 (\$11,401,133 in 2010), related to educational and historical programs and support services.

**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 and includes expenses for the operation of a gift shop.

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

	<u>2011</u>	<u>2010</u>
Grants to USMA	\$ 13,241,685	\$ 11,401,133
Salaries	5,487,663	5,347,648
Benefits	938,747	932,255
Professional services	476,357	674,961
Printing	292,485	338,000
Postage and shipping	357,033	261,182
Cost of goods sold	790,828	833,475
Employee travel	167,106	160,036
Awards and alumni events	571,936	425,542
Donor recognition expense	226,919	230,122
Donor acquisition	526,451	511,346
Office expenses	96,435	88,802
Building expenses	283,468	306,201
Depreciation	282,751	296,396
All other	618,483	501,342
Total	<u>\$ 24,358,347</u>	<u>\$ 22,308,441</u>

# **The Association of Graduates of the United States Military Academy**

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Notes to Financial Statements  
December 31, 2011 and 2010

## **14. Endowment**

In September 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA, the "Act"). The Act provides specific guidance regarding investment management and spending policies related to funds donated as "endowment" to the organization. Among its many provisions, the Act promotes a total return approach to spending, with the goals of investing at a rate that will preserve the purchasing power of the principal over the long term as well as a spend rate that, over the long term, will reflect the donor's intentions. The Act requires each organization to establish written investment and spending policies to ensure compliance with the Act. The Act also outlines the following eight standards for prudent spending, including a requirement that organizations have a written policy describing how such standards were adopted:

1. The duration and preservation of the endowment fund
2. The purpose of the institution and the endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the institution
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution
8. The investment policy of the institution

In addition, the Act establishes that a yearly spend of more than 7% of an endowment's market value creates a rebuttal presumption of imprudence. Spending is to be based on quarterly market values of the endowment calculated over a period of not less than 5 years. The Act also requires written notification to all existing endowment donors allowing them to indicate whether or not they will allow the endowment to be spent below the original gift amount.

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 2011 and 2010) 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. The unrestricted endowed assets represents income available for unrestricted 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, 2011 and 2010

In addition, it is the Association's current policy to recognize the historic dollar value of all endowment funds and not spend any portion of the corpus. The Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the Act.

Changes in endowed net assets for the year ended December 31, 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, end of year, December 31, 2010	\$ 5,680,086	\$ 19,879,722	\$ 88,602,660	\$ 114,162,468
Contributions	-	(128,361)	6,449,699	6,321,338
Investment income and net appreciation	(241,323)	(665,114)	-	(906,437)
Transfers and other, net	-	(1,079,140)	4,566,294	3,487,154
Amount appropriated for expenditure	-	(766,179)	-	(766,179)
Endowment net assets, end of year, December 31, 2011	<u>\$ 5,438,763</u>	<u>\$ 17,240,928</u>	<u>\$ 99,618,653</u>	<u>\$ 122,298,344</u>