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

Financial Statements

December 31, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

The Association of Graduates of the United States Military Academy

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December 31, 2015 and 2014

BAKER TILLY

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Independent Auditors' Report

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

We have audited the accompanying financial statements of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates (the "Association"), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities, net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
April 29, 2016

The Association of Graduates of the United States Military Academy

Statement of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash	$ 7,412,821	$ 9,635,161
Pledges receivable, net	22,519,737	26,113,011
Inventories and other assets	592,056	590,692
Investments	305,613,206	294,646,174
Split-interest and other trusts	27,130,934	27,739,323
Investments restricted by agreements	4,794,270	5,463,424
Building and equipment, net	7,247,946	5,662,442
Total assets	$ 375,310,970	$ 369,850,227

Liabilities and Net Assets

	2015	2014
Liabilities		
Accounts payable and accrued expenses	$ 1,892,719	$ 1,962,252
Proffer payable	12,729,369	11,764,837
Deferred obligations and revenue	3,417,416	2,901,028
Liabilities - remainder trusts	4,148,056	3,724,127
Due to classes	2,619,927	2,546,252
Deferred compensation	499,092	452,219
Total liabilities	25,306,579	23,350,715
Net Assets		
Unrestricted	29,451,514	29,770,642
Temporarily restricted	164,452,161	177,491,735
Permanently restricted	156,100,716	139,237,135
Total net assets	350,004,391	346,499,512
Total liabilities and net assets	$ 375,310,970	$ 369,850,227

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Activities

Years Ended December 31, 2015 and 2014

	Years Ended December 31							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions	$ 710,084	$ 25,133,483	$ 11,093,500	$ 36,937,067	$ 1,034,788	$ 28,504,198	$ 10,208,100	$ 39,747,086
Bequests	605,358	72,097	54,393	731,848	25,469	525,549	375,554	926,572
Royalties	558,438	83,601	4,325	646,364	535,390	79,914	4,603	619,907
Return on investments	2,563,531	1,803,051	-	4,366,582	3,208,269	2,934,242	-	6,142,511
Sales - gift shop	1,668,162	-	-	1,668,162	1,553,909	-	-	1,553,909
Subscriptions and advertising	492,759	-	-	492,759	257,978	-	-	257,978
Alumni activities	1,681,004	52,470	-	1,733,474	1,434,275	69,952	-	1,504,227
Other	514,784	(102,802)	6,000	417,982	419,395	(46,862)	-	372,533
Net Assets Released from Restriction								
Satisfaction of program restriction	24,392,492	(24,389,992)	(2,500)	-	24,962,533	(24,949,908)	(12,625)	-
Reimbursement for administrative and development expenses	4,878,020	(3,971,834)	(906,186)	-	5,283,098	(4,031,157)	(1,251,941)	-
Transfers, net	1,806,867	(9,803,796)	7,996,929	-	590,057	(4,855,874)	4,265,817	-
Total revenue and support	39,871,499	(11,123,722)	18,246,461	46,994,238	39,305,161	(1,769,946)	13,589,508	51,124,723
Expenses								
Program services								
Alumni services	4,124,452	-	-	4,124,452	3,785,149	-	-	3,785,149
Educational and historical	23,395,196	-	-	23,395,196	23,891,793	-	-	23,891,793
Communications & Marketing	1,175,426	-	-	1,175,426	912,838	-	-	912,838
(Recovery of) provision for uncollectible pledges, net	-	(2,495,903)	1,382,880	(1,113,023)	-	(877,448)	614,769	(262,679)
Supporting services								
Management and administration	3,878,851	-	-	3,878,851	3,145,934	-	-	3,145,934
Fund raising	6,408,451	-	-	6,408,451	5,858,516	-	-	5,858,516
Total expenses	38,982,376	(2,495,903)	1,382,880	37,869,353	37,594,230	(877,448)	614,769	37,331,551
Change in Net Assets Before Investment Transactions	889,123	(8,627,819)	16,863,581	9,124,885	1,710,931	(892,498)	12,974,739	13,793,172
Net Realized and Unrealized (Losses) Gains on Investments	(1,208,251)	(4,411,755)	-	(5,620,006)	1,035,714	4,518,836	-	5,554,550
Change in Net Assets	$ (319,128)	$(13,039,574)	$ 16,863,581	$ 3,504,879	$ 2,746,645	$ 3,626,338	$ 12,974,739	$ 19,347,722

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Net Assets
Years Ended December 31, 2015 and 2014

	Total Unrestricted	Total Temporarily Restricted	Total Permanently Restricted	Total
Net Assets, January 1, 2014	$ 27,023,997	$ 173,865,397	$ 126,262,396	$ 327,151,790
Net increase in net assets balance for 2014	2,746,645	3,626,338	12,974,739	19,347,722
Net Assets, December 31, 2014	29,770,642	177,491,735	139,237,135	346,499,512
Net (decrease) increase in net assets balance for 2015	(319,128)	(13,039,574)	16,863,581	3,504,879
Net Assets, December 31, 2015	$ 29,451,514	$ 164,452,161	$ 156,100,716	$ 350,004,391

See notes to financial statements

Statement of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ 3,504,879	$ 19,347,722
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term investment	(11,158,218)	(10,588,257)
Net realized and unrealized loss (gain) on investments	5,620,006	(5,554,550)
Depreciation on building and equipment	420,772	266,552
Increase in value of trusts	(2,037,774)	(2,529,135)
Changes in:		
Unrestricted and temporarily restricted pledges receivable	6,366,944	2,425,673
Inventories and other assets	(1,364)	7,086
Accounts payable, accrued expenses and deferred compensation	(22,660)	872,485
Proffer payable	964,532	10,013,480
Deferred obligations and revenue	516,388	(270,854)
Liabilities associated with remainder trusts	423,929	(29,385)
Due to classes	73,675	(50,660)
Net cash provided by operating activities	4,671,109	13,910,157
Cash Flows from Investing Activities		
Purchase of investments	(80,360,422)	(162,348,169)
Proceeds from sale and maturity of investments	63,168,615	134,864,635
Purchase of building improvements and equipment	(2,006,276)	(371,287)
Receipts from settlement of split-interest agreements	3,124,050	5,614,786
Purchase of investments restricted by agreements	796,036	208,247
Net cash used in investing activities	(15,277,997)	(22,031,788)
Cash Flows from Financing Activities		
Proceeds from contributions	11,158,218	10,588,257
Changes in permanently restricted pledges receivable	(2,773,670)	(288,122)
Net cash provided by financing activities	8,384,548	10,300,135
Net (Decrease) Increase in Cash and Cash Equivalents	(2,222,340)	2,178,504
Cash and Cash Equivalents, Beginning	9,635,161	7,456,657
Cash and Cash Equivalents, Ending	$ 7,412,821	$ 9,635,161

See notes to financial statements

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 Code (the “Code”) rules and has been classified as an organization that is not a private foundation.

On June 12, 2014, the Association created the West Point Athletics Limited Liability Corporation (the "LLC") with the Association as its sole member. The primary purpose of the LLC is to assist the Academy in its objective to improve the intercollegiate athletic program. Under applicable U.S. Treasury regulations, the LLC is disregarded as a separate entity for income tax purposes and is reported within the Association’s Federal *Return of Organization Exempt from Income Tax*.

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 written 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 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.

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 and non-interest bearing accounts.

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 offered 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 offered 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 may not be 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 market value.

Inventories

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

Building and Equipment

Building and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method and is based on the assets' estimated useful lives between three and five years for computer equipment, five and ten years for furniture and fixtures, ten to fifteen years for building improvements and 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, 2015, include $8,488,152 of donated securities ($6,631,318 in 2014).

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 $2,619,927 and $2,546,252 at December 31, 2015 and 2014, 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 the 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 primarily of 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 Code and, except for unrelated business income, 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 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 Code. In both 2015 and 2014, however, unrelated business income (net of applicable expenses) resulted in no material tax expense. The Association believes that there are no other tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax expenses or 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 2012 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 for recognition or disclosure through April 29, 2016, the date when the financial statements were available to be issued.

New Accounting Standard

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Association will be required to adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018; early application is not permitted. The Association does not believe the adoption of this standard will have a material impact on its financial position or activities.

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 a risk adjusted rate of 3%) and the allowance for uncollectible pledges, are as follows:

	December 31,	
	2015	**2014**
Receivable in less than one year	$ 9,241,810	$ 11,673,520
Receivable in one year to five years	21,633,204	22,614,174
Receivable in more than five years	4,069,728	5,345,530
Total unconditional promises to give	34,944,742	39,633,224
Less allowance for uncollectible pledges	(9,561,117)	(10,674,139)
Less discounts to net present value	(2,863,888)	(2,846,074)
Total	$ 22,519,737	$ 26,113,011

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,	
	2015	**2014**
Investments	$ 305,613,206	$ 294,646,174
Investments - pooled life income funds	1,296,723	2,236,129
Investments - gift annuities	3,497,547	3,227,295
Investments restricted by agreements	4,794,270	5,463,424
Total	$ 310,407,476	$ 300,109,598

Investments are comprised of the following:

	December 31,	
	2015	**2014**
Short-term investments (money markets)	$ 26,867,080	$ 21,796,382
Fixed income funds	62,259,325	66,478,605
Equity securities	168,766,973	163,519,599
Alternative investments	52,151,293	48,081,509
Other	362,805	233,503
Total	$ 310,407,476	$ 300,109,598

Return on investments, gains and losses on investment transactions are comprised of the following:

	December 31,	
	2015	**2014**
Unrestricted:		
Return on investments (interest and dividends)	$ 2,563,531	$ 3,208,269
Net realized gains on sale of investments	$ 330,088	$ 542,773
Net unrealized (losses) gains on investments	(1,538,339)	492,941
	$ (1,208,251)	$ 1,035,714
Temporarily restricted:		
Return on investments (interest and dividends)	$ 1,803,051	$ 2,934,242
Net realized gains on sale of investments	$ 1,755,730	$ 2,302,132
Net unrealized (losses) gains on investments	(6,167,485)	2,216,704
	$ (4,411,755)	$ 4,518,836

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, 2015 was $12,754,480. This investment is included in alternative investments as Level 3 in the fair value table below. As capital calls are received, other investments are sold and the proceeds and available cash are used to fulfill the capital call. The Association has also 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 funded by the Association as of December 31, 2015 are $2,720,518. In accordance with these agreements, the redemption period for these funds range from 7 to 10 years and they are classified as fund of funds and real estate fund Level 3 investments in the fair value table below.

The Association entered into a new agreement in 2014 with SVB Strategic Investors Fund VII, LP. The agreement contains provisions for capital calls by the partner up to specified amounts. The total capital committed under the agreement amounts to $1,000,000. The total capital contributed to the Fund by the Association as of December 31, 2015 was $160,000. The redemption period for this agreement is five years.

The Association entered into a new agreement in 2015 with Institutional Venture Partners XV, LP. The agreement contains provisions for capital calls by the partner up to specified amounts. The total capital committed under the agreement amounts to $1,000,000. There were $180,000 in capital calls in 2015. The redemption period for this agreement is ten years, subject to two one-year extensions. The Association also entered into a new agreement in 2015 with Oaktree Private Investment Fund IV, LP. The agreement contains provisions for capital calls by the partner up to specified amounts. The total capital committed under the agreement amounts to $4,000,000. There was a $400,000 capital call in 2015. The redemption period for this agreement is ten years, subject to extension.

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 uses 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 basis of fair value for underlying assets is as follows:

- Short-term investments consist of money market funds in which the carrying value approximates fair value because of the short maturity of these instruments.

- Fixed income and equity funds classified as Level 1 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.

- Equity, real estate and limited partnerships classified as Level 2 or 3 are valued based on the net asset value (NAV) of a share. Fair value is determined by reference to the fund's reported NAV per share as a practical expedient, unless it is probable that the investment will be disposed at some value other than NAV per share in which case reference would be made to the expected disposal price or other indicators of value. The investments valued using the NAV per share include a strategy that invests in publicly traded equity securities, fixed income securities and marketable alternative investments. These funds do not have redemption restrictions or commitments.

- Fund of funds and real estate funds classified as Level 3 include private capital securities that 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 following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2015 and 2014 where carrying value equals fair value (refer to Note 4 for split-interests and other trusts):

	2015			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	$ 26,781,638	$ 85,442	$ -	$ 26,867,080
Fixed income funds				
Mortgage backed	14,653,542	-	-	14,653,542
Government funds	47,605,783	-	-	47,605,783
Equity funds				
Domestic equity	14,212,659	83,550,026	-	97,762,685
International equity	71,004,288	-	-	71,004,288
Alternative investments				
Limited partnerships	-	-	40,239,661	40,239,661
Fund of funds	-	-	3,367,959	3,367,959
Real estate funds	-	6,733,569	1,810,104	8,543,673
Other	362,805	-	-	362,805
Total	$ 174,620,715	$ 90,369,037	$ 45,417,724	$ 310,407,476

	2014			
Short-term investments	$ 21,680,120	$ 116,262	$ -	$ 21,796,382
Fixed income funds				
Mortgage backed	18,851,185	-	-	18,851,185
Government funds	47,627,420	-	-	47,627,420
Equity funds				
Domestic equity	13,616,799	71,406,010	-	85,022,809
International equity	78,496,790	-	-	78,496,790
Alternative investments				
Limited partnerships	-	-	36,060,824	36,060,824
Fund of funds	-	-	4,440,211	4,440,211
Real estate funds	-	5,851,349	1,729,125	7,580,474
Other	233,503	-	-	233,503
Total	$ 180,505,817	$ 77,373,621	$ 42,230,160	$ 300,109,598

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:

	2015	2014
Balance, beginning of year	$ 42,230,160	$ 34,132,502
Purchases	6,062,879	9,453,252
Earnings	(267,328)	3,012,610
Sales	(2,607,987)	(4,368,204)
Balance, end of year	$ 45,417,724	$ 42,230,160

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. The 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%) 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 $6,665,363 at December 31, 2015 ($7,034,430 in 2014) 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 ($4,148,056 and $3,724,127 at December 31, 2015 and 2014, respectively) is calculated using a discount rate (approximately 3%) 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 $13,868,984 at December 31, 2015 ($12,290,373 at 2014).

Perpetual Trust

A donor has established a perpetual trust under which the Association receives 35% of the trust's 5% annual distribution. The asset is recorded based on the net present value of future cash flows expected to be received.

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 $663,893 at December 31, 2015 ($847,814 in 2014).

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. 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, 2015 deferred obligations associated with gift annuities approximated $2,526,983 ($1,758,388 in 2014).

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. At December 31, 2015, the Association's gift annuity and pooled life income fund liabilities amounted to $3,190,876 ($2,606,202 in 2014). At December 31, 2015 and 2014, the Association maintained sufficient assets in excess of liabilities to fulfill the requirement under the law. The Association was in full compliance with reserve requirements under the insurance law at December 31, 2015 and 2014.

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 2015 and 2014 were as follows:

	Split-Interest and Other Trusts			
	Irrevocable & Other Trusts	**Remainder Trusts**	**Perpetual Trust**	**Total Split-Interest & Other Trusts**
Balance at December 31, 2013	$ 8,227,095	$ 21,415,215	$ 1,053,046	$ 30,695,356
Contributions	2,970,141	1,568,880	-	4,539,021
Cash realized	(4,414,983)	(1,147,151)	(52,652)	(5,614,786)
Write-offs	(239,230)	(3,421,850)	-	(3,661,080)
Change in value	838,960	909,709	32,143	1,780,812
Balance at December 31, 2014	7,381,983	19,324,803	1,032,537	27,739,323
Contributions	806,415	2,368,792	-	3,175,207
Cash realized	(2,622,095)	(450,328)	(51,627)	(3,124,050)
Change in value	86,640	(708,920)	(37,266)	(659,546)
Balance at December 31, 2015	$ 5,652,943	$ 20,534,347	$ 943,644	$ 27,130,934

The changes in investments restricted by agreements for 2015 and 2014 were as follows:

	Investments Restricted by Agreements		
	Pooled Life Income Funds	**Gift Annuities**	**Total Investments Restricted by Agreements**
Balance at December 31, 2013	$ 2,187,325	$ 3,738,754	$ 5,926,079
Contributions	-	78,910	78,910
Cash realized	(13,160)	(528,124)	(541,284)
Change in value	61,964	(62,245)	(281)
Balance at December 31, 2014	2,236,129	3,227,295	5,463,424
Contributions	-	625,500	625,500
Cash realized	(880,501)	(6,802)	(887,303)
Returned to Association	-	(100,000)	(100,000)
Change in value	(58,905)	(248,446)	(307,351)
Balance at December 31, 2015	$ 1,296,723	$ 3,497,547	$ 4,794,270

5. Building and Equipment

A summary of building and equipment is as follows:

	December 31, 2015	December 31, 2014
Equipment	$ 449,715	$ 590,824
Building & improvements	11,275,189	9,989,440
Furniture & fixtures	885,931	400,055
	12,610,835	10,980,319
Less accumulated depreciation	5,362,889	5,317,877
Total	$ 7,247,946	$ 5,662,442

Depreciation expense was $420,772 and $260,252 as of December 31, 2015 and 2014, respectively.

6. Lines of Credit

The Association has entered into a $7,000,000 line of credit with a bank. This line was established under a working capital support agreement dated June 16, 2014, with interest rate options of LIBOR plus 1.4% or Prime Rate minus 1.25%. There were no outstanding balances at December 31, 2015 or 2014. The credit line expires on June 30, 2016.

The Association incurred no interest expense for the years ended December 31, 2015 and 2014.

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, 2015, the Association's obligation pursuant to these arrangements was approximately $499,092 ($452,219 in 2014).

8. Pension Plan

The Association sponsors a defined contribution retirement plan under Section 403(b) of the Code 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 $332,086 for the year ended December 31, 2015 ($301,402 for 2014).

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 Academy and its graduates.

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

	December 31,	
	2015	**2014**
Permanent endowment with no restrictions on the use of income	$ 32,825,771	$ 32,359,442
Permanent endowments with income restricted to the support of projects and programs related to the Academy and its graduates	123,274,945	106,877,693
Total	$ 156,100,716	$ 139,237,135

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 reflect the donors' intent for the contribution. The Association ensures donors' consent before making net asset transfers from temporarily restricted to permanently restricted.

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.

13. Description of Program and Supporting Services

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

Communications and Marketing - Disseminates information on current events and 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 solicit, secure and steward private financial support from individuals, foundations and corporations.

Educational and Historical - Provides gift funds and assets to the United States Military Academy ("USMA") with the purpose to include the encouragement of the study of leadership and to enhance the image of the United States Military Academy. The Association recorded $23,395,196 of grants to the United States Military Academy in 2015 ($23,891,793 in 2014), related to educational and historical programs and support services.

Alumni Services - Encompasses activities, support and services provided to graduates including events, awards and 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:

	2015	2014
Grants to USMA	$ 23,395,196	$ 23,891,793
Salaries	7,135,971	6,310,868
Benefits	1,447,246	1,187,999
Professional services	1,173,486	1,115,117
Printing	245,813	185,853
Postage and shipping	516,305	392,435
Cost of goods sold	845,646	842,485
Employee travel	260,989	206,636
Awards and alumni events	1,418,237	1,096,781
Donor recognition expense	309,399	313,685
Donor acquisition	852,847	903,257
Office expenses	119,254	89,410
Building expenses	282,240	295,303
Depreciation	420,772	260,252
All other	558,975	502,356
Total	$ 38,982,376	$ 37,594,230

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, based on quarterly market values of the endowment calculated over a period of not less than 5 years, creates a rebuttal presumption of imprudence. 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.

The primary investment objective is to maximize total return within prudent risk guidelines. The secondary objective is preserve capital - less risk will be assumed for funds intended for near-term use, while greater risk may be assumed for longer-term funds, including endowments.

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 2015 and 2014) 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 represent income available for unrestricted purposes. If endowments have negative balances in their income accounts at year end, the availability of distributions is limited to interest and dividend income earned by the endowment fund during the calendar year.

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, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year, December 31, 2014	$ 11,949,156	$ 47,337,435	$ 139,237,135	$ 198,523,726
Contributions	-	176,305	11,147,894	11,324,199
Return on investment	339,612	1,310,854	-	1,650,466
Realized and unrealized loss on investment	(839,035)	(3,176,163)	-	(4,015,198)
Transfers and other, net	(31,021)	(1,136,348)	5,715,687	4,548,318
Amount appropriated for expenditure	(1,401,785)	(2,887,441)	-	(4,289,226)
Endowment net assets, end of year, December 31, 2015	$ 10,016,927	$ 41,624,642	$ 156,100,716	$ 207,742,285

Changes in endowed net assets for the year ended December 31, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year, December 31, 2013	$ 10,944,057	$ 46,848,993	$ 126,262,396	$ 184,055,446
Contributions	-	117,878	10,101,234	10,219,112
Return on investment	1,087,938	1,998,802	-	3,086,740
Realized and unrealized gain on investment	1,128,269	3,262,801	-	4,391,070
Transfers and other, net	352,769	(2,380,959)	2,873,505	845,315
Amount appropriated for expenditure	(1,563,877)	(2,510,080)	-	(4,369,057)
Endowment net assets, end of year, December 31, 2014	$ 11,949,156	$ 47,337,435	$ 139,237,135	$ 198,228,626

15. Reclassifications

Certain reclassifications have been made to the 2014 balances previously reported to conform to the current year presentation.