

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

Financial Statements

December 31, 2021 and 2020

The Association of Graduates of the United States Military Academy

Table of Contents

December 31, 2021 and 2020

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

Independent Auditors' Report

To the Board of Directors of
West Point Association of Graduates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of the Graduates (the Association), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

New York, New York
April 29, 2022

The Association of Graduates of the United States Military Academy

Statements of Financial Position

December 31, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,039	\$ 2,803
Restricted cash	5,626	6,006
Pledges receivable, net	14,305	3,436
Inventories and other assets	613	549
Investments	354,337	268,940
	<hr/>	<hr/>
Total current assets	376,920	281,734
Pledges Receivable, Net	29,957	15,129
Investments	226,379	209,351
Split-Interest and Other Trusts	35,660	31,394
Investments Restricted by Agreements	6,073	5,825
Building and Equipment, Net	5,076	5,817
	<hr/>	<hr/>
Total assets	<u>\$ 680,065</u>	<u>\$ 549,250</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,095	\$ 3,230
Proffer payable	8,390	2,431
Deferred revenue	132	184
	<hr/>	<hr/>
Total current liabilities	11,617	5,845
Deferred Obligations	3,082	3,137
Liabilities, Remainder Trusts	4,809	4,373
Due to Classes	2,879	2,795
Deferred Compensation	761	686
	<hr/>	<hr/>
Total liabilities	23,148	16,836
Net Assets		
Without donor restrictions	80,235	66,681
With donor restrictions	576,682	465,733
	<hr/>	<hr/>
Total net assets	656,917	532,414
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 680,065</u>	<u>\$ 549,250</u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statements of Activities and Changes in Net Assets

Years Ended December 31, 2021 and 2020

(In Thousands)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Contributions	\$ 532	\$ 94,048	\$ 94,580	\$ 660	\$ 37,445	\$ 38,105
Bequests	277	384	661	2,638	3,174	5,812
Royalties	657	7	664	641	84	725
Return on investments	6,343	4,604	10,947	6,059	5,173	11,232
Sales, gift shop	2,196	-	2,196	1,499	-	1,499
Subscriptions and advertising	331	-	331	178	-	178
Alumni activities	769	5	774	527	33	560
Other	180	1	181	97	(26)	71
Net Assets Released From Restriction						
Satisfaction of program restriction	26,658	(26,658)	-	23,630	(23,630)	-
Reimbursement for administrative and development expenses	5,225	(5,225)	-	4,673	(4,673)	-
Transfers, net	548	(548)	-	660	(660)	-
Total revenues and other support	<u>43,716</u>	<u>66,618</u>	<u>110,334</u>	<u>41,262</u>	<u>16,920</u>	<u>58,182</u>
Expenses						
Program services:						
Alumni services	4,408	-	4,408	3,665	-	3,665
Educational and historical	25,925	-	25,925	23,352	-	23,352
Communications and marketing	1,471	-	1,471	1,249	-	1,249
Provision for uncollectible pledges, net	-	9,016	9,016	-	23	23
Supporting services:						
Management and administration	5,007	-	5,007	4,520	-	4,520
Fundraising	7,232	-	7,232	6,872	-	6,872
Total expenses	<u>44,043</u>	<u>9,016</u>	<u>53,059</u>	<u>39,658</u>	<u>23</u>	<u>39,681</u>
Change in net assets before investment transactions	(327)	57,602	57,275	1,604	16,897	18,501
Net Realized and Unrealized Gains on Investments	<u>13,881</u>	<u>53,347</u>	<u>67,228</u>	<u>7,900</u>	<u>27,512</u>	<u>35,412</u>
Change in net assets	13,554	110,949	124,503	9,504	44,409	53,913
Net Assets, Beginning	<u>66,681</u>	<u>465,733</u>	<u>532,414</u>	<u>57,177</u>	<u>421,324</u>	<u>478,501</u>
Net Assets, Ending	<u>\$ 80,235</u>	<u>\$ 576,682</u>	<u>\$ 656,917</u>	<u>\$ 66,681</u>	<u>\$ 465,733</u>	<u>\$ 532,414</u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(In Thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 124,503	\$ 53,913
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions for donor restricted endowment funds	(9,778)	(6,273)
Net realized and unrealized gain on investments	(67,228)	(35,412)
Depreciation on building and equipment	814	804
Increase in value of trusts and investments restricted by agreements	(4,850)	(2,709)
Changes in:		
Pledges receivable	(20,312)	(1,857)
Inventories and other assets	(64)	323
Accounts payable, accrued expenses and deferred compensation	(60)	(473)
Proffer payable	5,959	(7,432)
Deferred obligations and revenue	(107)	(214)
Liabilities associated with remainder trusts	436	213
Due to classes	84	(45)
Net cash provided by operating activities	<u>29,397</u>	<u>838</u>
Cash Flows From Investing Activities		
Purchase of investments	(287,452)	(126,913)
Proceeds from sale and maturity of investments	252,255	114,993
Purchase of building improvements and equipment	(73)	(27)
Receipts from settlement of split-interest agreements	937	2,682
Purchase of investments restricted by agreements	(601)	(57)
Net cash used in investing activities	<u>(34,934)</u>	<u>(9,322)</u>
Cash Flows From Financing Activities		
Proceeds from contributions for donor restricted endowment funds	9,778	6,273
Changes in pledges restricted for long term investment	(5,385)	2,502
Net cash provided by financing activities	<u>4,393</u>	<u>8,775</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(1,144)	291
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>8,809</u>	<u>8,518</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 7,665</u>	<u>\$ 8,809</u>

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position to the above statements of cash flows:

Cash and cash equivalents	\$ 2,039	\$ 2,803
Restricted cash	<u>5,626</u>	<u>6,006</u>
Total cash, cash equivalents and restricted cash	<u>\$ 7,665</u>	<u>\$ 8,809</u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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 (IRC). 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 IRC 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 Association consolidates the LLC and has eliminated all intercompany accounts and transactions. 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 two classes of net assets: without donor restrictions and with donor restrictions, based upon the absence or existence and nature of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - 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. This includes endowment assets to be held in perpetuity for which the income earned can be used for specific donor-stipulated 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 noninterest bearing accounts.

Restricted Cash

Restricted cash consists of cash and cash equivalents restricted for use based on donor designations.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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 met.

Proffer Payable

Proffer payable represents unconditional promises to grant funds to the United States Military Academy that have been offered and accepted prior to year-end, but remain unpaid as of the statements 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 accepted. They are generally expected to be 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 value.

Inventories

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

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 and vehicles, five and ten years for furniture and fixtures, ten to fifteen years for building improvements and equipment and forty years for the building.

Noncash Gifts and Donated Securities

Donated noncash gifts are reflected as contributions in the accompanying statements at their estimated fair value at date of donation if the Association has determined that they have the risks and rewards of ownership as well as the discretion over beneficiary distribution of the noncash gifts. When conditions for recognizing noncash gifts are not met, the Association may be acting as an agent in passing a gift through to the Academy. In 2021 and 2020, the noncash gifts received and reflected in the accompanying financial statements are not significant.

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, 2021, include \$7,169 of donated securities (\$5,389 in 2020).

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

Investments

Short-term investments, equity securities and other investments with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Return on investments (including investments, interest and dividends) and net realized and unrealized gains (losses) on investments are included in change in net assets without donor restrictions unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

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 statements of financial position as investments, along with an offsetting liability. This liability is presented in the statements of financial position as due to classes in the amounts of \$2,879 and \$2,795 at December 31, 2021 and 2020, respectively.

Revenue With and Without Donor Restriction

Contributions received are recorded as revenue with or without donor restrictions, depending on the existence and/or nature of any donor restrictions, and are reported as an increase in net assets with or without donor restrictions. When a restriction expires (that is, when the purpose restriction is accomplished or time restriction passes), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

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 IRC and, except for unrelated business income, is exempt from income taxes under Section 501(a) of the IRC. 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 IRC. In both 2021 and 2020, however, unrelated business income (net of applicable expenses) resulted in no material tax expense. The Association believes that there are no 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 are currently under examination by the Internal Revenue Service (IRS) or state authorities.

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, 2021 and 2020
(In Thousands)

Subsequent Events

Subsequent events have been evaluated for recognition or disclosure through April 29, 2022, the date when the financial statements were available to be issued.

Accounting Standards Not Yet Adopted

During September 2020, the FASB issued Accounting Standards Update ((ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. The Organization does not anticipate any material impact of ASU No. 2020-07 on its financial statements.

2. Liquidity and Availability

The Association's financial assets available within one year of the statements of financial position date for general expenditure such as operating expenses and grants to the Academy or Army West Point Athletic Association (AWPAA) are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,039	\$ 2,803
Pledges receivable, net	14,305	3,436
Investments	<u>354,337</u>	<u>268,940</u>
Total	<u>\$ 370,681</u>	<u>\$ 275,179</u>

The Association's endowment funds consist of donor-restricted endowments and endowments without donor restriction. Income from donor-restricted endowments which is restricted for specific purposes is not available for general expenditure. As described in Note 15, the endowments without donor restriction have a spending rate of 4.5 percent.

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Association invests cash in excess of daily requirements in short-term investments.

Although the Association does not intend to spend from its unrestricted funds other than amounts appropriated for general expenditure pursuant to its annual budget process, additional amounts from unrestricted funds are available if necessary and if in compliance with endowment spending rules. The Association also has an unsecured credit line in the amount of \$7 million to manage unanticipated liquidity needs, which, as of December 31, 2021 and 2020, had not been drawn upon.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

3. 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 1.5 percent in 2021 and 3 percent in 2020) and the allowance for uncollectible pledges, are as follows:

	December 31,	
	2021	2020
Gross unconditional promises to give	\$ 62,527	\$ 27,572
Less allowance for uncollectible pledges	(16,230)	(7,214)
Less discounts to net present value	(2,035)	(1,793)
Net unconditional promises to give	<u>\$ 44,262</u>	<u>\$ 18,565</u>
Amounts due in:		
Less than one year, net of allowance	<u>\$ 14,305</u>	<u>\$ 3,436</u>
Amounts due in:		
One to five years, net of allowance and discount	\$ 20,160	\$ 10,050
More than five years, net of allowance and discount	1,946	967
	<u>22,106</u>	<u>11,017</u>
To be held in perpetuity, net of allowance and discount	<u>7,851</u>	<u>4,112</u>
	<u>\$ 29,957</u>	<u>\$ 15,129</u>

4. 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,	
	2021	2020
Investments	\$ 580,716	\$ 478,291
Investments, pooled life income funds	1,362	1,388
Investments, gift annuities	4,711	4,437
Investments restricted by agreements	6,073	5,825
Total	<u>\$ 586,789</u>	<u>\$ 484,116</u>

Investments are comprised of the following:

	December 31,	
	2021	2020
Short-term investments (money markets)	\$ 43,652	\$ 22,017
Fixed income funds	64,460	74,355
Equity securities	349,718	298,367
Alternative investments	109,511	79,303
Other	19,448	10,074
Total	<u>\$ 586,789</u>	<u>\$ 484,116</u>

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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

	December 31,	
	2021	2020
Without donor restrictions:		
Return on investments (interest and dividends)	\$ 6,343	\$ 6,059
Net realized gains on sale of investments	\$ 4,072	\$ 3,217
Net unrealized gains on investments	9,809	4,683
	<u>\$ 13,881</u>	<u>\$ 7,900</u>
With donor restrictions:		
Return on investments (interest and dividends)	\$ 4,604	\$ 5,173
Net realized gains on sale of investments	\$ 15,183	\$ 11,473
Net unrealized gains on investments	38,164	16,039
	<u>\$ 53,347</u>	<u>\$ 27,512</u>

Gains on endowment investments required to be held in perpetuity are reported as increases in net assets with or without donor restrictions depending upon donor restrictions placed on the use of the investment income.

5. Fair Value Measurements

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

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

The following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2021 and 2020 where carrying value equals fair value (refer to Note 6 for split-interests and other trusts):

	2021			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	\$ 43,544	\$ 108	\$ -	\$ 43,652
Fixed income funds:				
Mortgage backed	11,228	-	-	11,228
Government funds	53,232	-	-	53,232
Equity funds:				
Domestic equity	37,884	-	-	37,884
International equity	104,362	-	-	104,362
Alternative investments:				
Fund of funds	-	-	1,509	1,509
Real estate funds	-	-	44	44
Other funds	19,448	-	-	19,448
Total assets in the fair value hierarchy	<u>\$ 269,698</u>	<u>\$ 108</u>	<u>\$ 1,553</u>	271,359
Assets recorded at net asset value (a)				<u>315,430</u>
Assets at fair value				<u>\$ 586,789</u>
	2020			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	\$ 21,953	\$ 64	\$ -	\$ 22,017
Fixed income funds:				
Mortgage backed	13,140	-	-	13,140
Government funds	61,215	-	-	61,215
Equity funds:				
Domestic equity	31,763	-	-	31,763
International equity	118,855	-	-	118,855
Alternative investments:				
Fund of funds	-	-	1,342	1,342
Real estate funds	-	-	34	34
Other funds	10,074	-	-	10,074
Total assets in the fair value hierarchy	<u>\$ 257,000</u>	<u>\$ 64</u>	<u>\$ 1,376</u>	258,440
Assets recorded at net asset value (a)				<u>225,676</u>
Assets at fair value				<u>\$ 484,116</u>

(a) In accordance with ASU No. 2015-07, certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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

- Short-term investments consist of money market and bond funds in which the carrying value approximates fair value because of the short maturity of these instruments.
- Fixed income, equity funds and other funds classified as active market 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.
- 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 Association has entered into several agreements with Commonfund, a nonprofit investment manager, to invest in various partnerships. Two of these agreements contain provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreements amounts to \$5,000 and the total amount of capital contributed to the partnerships by the Association as of December 31, 2021 was \$4,918. This investment is included in alternative investments as Level 3 in the fair value table. 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, and the total amount of capital contributed by the Association as of December 31, 2021 was \$2,720. The Association was released from its remaining commitment of \$279. 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 funds Level 3 investments in the fair value table.
- Certain equity, real estate and limited partnership funds 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.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

The following table sets forth a summary of purchases and sales of investments measured using Level 3 inputs for the year ended December 31:

	2021		
	Fund of Funds	Real Estate Funds	Total
Purchases	\$ -	\$ -	\$ -
Sales	(447)	-	(447)
	2020		
	Fund of Funds	Real Estate Funds	Total
Purchases	\$ 5	\$ -	\$ 5
Sales	(310)	(130)	(440)

Investments are primarily pooled in investment portfolios containing multiple funds with and without donor restrictions. The investment income is allocated to the individual funds within the pool based upon the proportional invested balance of each fund.

Fair Value of Investments Recorded at Net Asset Value as a Practical Expedient

The following table sets forth additional disclosures of the Association's investments in whose fair value is estimated using the net asset value per share (or its equivalent) as a practical expedient to fair value as of December 31, 2021 and 2020:

	2021			
	Fair Value	Unfunded Commitments	Remaining Life	Redemption Restriction/Terms
Domestic equity funds	\$ 172,535	N/A	N/A	N/A
International equity funds	34,937			
Private equity:				
Drawdown partnerships (a)	34,928	\$ 16,196	1 to 9 years	Redemptions not permitted
Long/short equity funds	67,815	N/A	N/A	Quarterly or Annual with notice period from 45-65 days
Real estate:				
Drawdown partnerships (a)	5,215	5,405	6 to 10 years	Redemptions not permitted
Total	<u>\$ 315,430</u>	<u>\$ 21,601</u>		

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

	2020			
	Fair Value	Unfunded Commitments	Remaining Life	Redemption Restriction/Terms
Domestic equity funds	\$ 147,750	N/A	N/A	N/A
Private equity:				
Drawdown partnerships (a)	18,515	\$ 22,059	1 to 10 years	Redemptions not permitted
Long/short equity funds	48,427	N/A	N/A	Quarterly or Annual with notice period from 45-65 days
Real estate:				
Drawdown partnerships (a)	3,242	4,031	7 to 11 years	Redemptions not permitted
Real estate:				
Income and growth fund	7,742	N/A	N/A	Quarterly with 60 days notice
Total	<u>\$ 225,676</u>	<u>\$ 26,090</u>		

- a) Certain limited partnership funds are held as long-term investments and are structured as closed-end, commitment-based investment funds where the investor commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. These funds generally cannot be redeemed prior to the specified termination date and will only receive distributions upon a disposition of the underlying assets of the portfolio. As a limited partner, the Association will not generally have any influence over the amount and timing of capital contributions and distributions.

6. 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 respective trust agreements, the donor's designated beneficiary is entitled to the income earned on the trust during the beneficiary's lifetime, and upon death the assets in the trust will be available to the Association. The present value of the estimated amount to be received was calculated using a risk adjusted discount rate (approximately 3 percent) 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 \$8,299 at December 31, 2021 (\$7,331 in 2020) and are recorded at estimated realizable value. On an annual basis the Association revalues the respective liabilities to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$4,809 and \$4,373 at December 31, 2021 and 2020, respectively) is calculated using a discount rate (approximately 3 percent) and applicable mortality tables.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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 \$16,998 at December 31, 2021 (\$15,465 at 2020).

Perpetual Trust

A donor has established a perpetual trust under which the Association receives 35 percent of the trust's 5 percent 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 \$572 at December 31, 2021 (\$606 in 2020).

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, 2021, deferred obligations associated with gift annuities approximated \$2,510 (\$2,531 in 2020).

As required by insurance law, the Association maintains an annuity reserve greater than 115 percent 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, 2021 and 2020, 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, 2021 and 2020.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

The changes in split-interest and other trusts for 2021 and 2020 were as follows:

	Split-Interest and Other Trusts			
	Irrevocable and Other Trusts	Remainder Trusts	Perpetual Trust	Total Split- Interest and Other Trusts
Balance, December 31, 2019	\$ 9,167	\$ 21,172	\$ 989	\$ 31,328
Contributions	920	57	-	977
Cash realized	(2,583)	(50)	(49)	(2,682)
Change in value	65	1,617	89	1,771
Balance at December 31, 2020	7,569	22,796	1,029	31,394
Contributions	2,413	455	-	2,868
Cash realized	(796)	(89)	(52)	(937)
Change in value	110	2,135	90	2,335
Balance, December 31, 2021	<u>\$ 9,296</u>	<u>\$ 25,297</u>	<u>\$ 1,067</u>	<u>\$ 35,660</u>

The changes in investments restricted by agreements for 2021 and 2020 were as follows:

	Investments Restricted by Agreements		
	Pooled Life Income Funds	Gift Annuities	Total Investments Restricted by Agreements
Balance, December 31, 2019	\$ 1,329	\$ 4,478	\$ 5,807
Contributions	-	-	-
Cash realized	(11)	(275)	(286)
Change in value	70	234	304
Balance, December 31, 2020	1,388	4,437	5,825
Contributions	-	146	146
Cash realized	-	(35)	(35)
Change in value	(26)	163	137
Balance, December 31, 2021	<u>\$ 1,362</u>	<u>\$ 4,711</u>	<u>\$ 6,073</u>

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

7. Building and Equipment

A summary of building and equipment is as follows:

	December 31,	
	2021	2020
Building and improvements	\$ 11,406	\$ 11,406
Computer equipment and software	2,003	1,930
Furniture and fixtures	996	996
Equipment	335	335
Vehicles	20	20
	14,760	14,687
Less accumulated depreciation	9,684	8,870
Total	\$ 5,076	\$ 5,817

Depreciation expense was \$814 and \$804 for the years ended December 31, 2021 and 2020, respectively.

8. Line of Credit

The Association has secured a \$7 million line of credit with a bank. This line was established under a working capital support agreement dated July 25, 2018, with an interest rate of Prime Rate minus 1.25 percent and is due on demand. There was no outstanding balance at December 31, 2021 and 2020. The credit line does not expire.

The Association did not draw on the line during 2021 or 2020 and thus incurred no related interest expense for the years ended December 31, 2021 and 2020.

9. 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, the Association's investments and obligation pursuant to these arrangements was:

	2021	2020
Investments, long-term	\$ 761	\$ 686
Deferred compensation liability	\$ (761)	\$ (686)

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

10. Defined Contribution Plan

The Association sponsors a defined contribution retirement plan under Section 403(b) of the IRC 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 \$510 for the year ended December 31, 2021 (\$467 for 2020).

11. Property Lease

In 1992, the Association entered into a 50 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.

12. Net Assets With Restrictions

As of December 31, 2021 and 2020, net assets with donor restrictions totaling \$332,565 and \$245,480 respectively, are available for the support of various projects related to the Academy and its graduates or are restricted by time.

Net assets to be held in perpetuity, which consist of endowment funds, are restricted to the following:

	December 31,	
	2021	2020
Endowment with no restrictions on the use of income	\$ 41,390	\$ 40,057
Endowments with income restricted to the support of projects and programs related to the Academy and its graduates	<u>202,727</u>	<u>180,196</u>
Total	<u>\$ 244,117</u>	<u>\$ 220,253</u>

13. Transfers

Transfers are made among the net asset classes to reclassify previously recognized revenue that has been re-allocated in the current year by the donor 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 to and from net assets with donor restrictions.

14. Description of Program and Supporting Services

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

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

Educational and Historical - Provides gift funds and assets to the Academy and AWPAA for the purpose of encouraging the study of leadership and to enhance the image of the Academy. The Association recorded \$25,825 of grants to the Academy and AWPAA in 2021 (\$23,245 in 2020), related to educational and historical programs and support services.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

Communications and Marketing - Disseminates information on current events and the history, activities, objectives and purpose of the Academy through certain publications and media.

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

Fundraising - Provides the structure necessary to solicit, secure and steward private financial support from individuals, foundations and corporations.

The financial statements report certain categories of expenses that are related to more than one program or supporting function. The expenses that are allocated are building and occupancy expenses which are allocated on a square footage basis.

	2021					
	Alumni Services	Educational and Historical	Communications and Marketing	Management and Administration	Fundraising	Total Expenses
Grants to the Academy	\$ -	\$ 17,191	\$ -	\$ -	\$ -	\$ 17,191
Grants to AWPAA/Other	-	8,634	-	-	-	8,634
Salaries	1,864	75	784	2,147	4,681	9,551
Benefits	398	18	178	422	1,015	2,031
Professional services	79	2	42	679	146	948
Printing	58	-	286	9	42	395
Postage and shipping	176	-	110	3	182	471
Cost of goods sold	1,109	-	-	-	-	1,109
Employee travel	29	-	5	60	60	154
Awards and alumni events	224	-	-	76	-	300
Donor recognition	-	-	-	15	292	307
Donor acquisition	-	-	-	4	208	212
Office expenses	27	-	8	11	17	63
Building expenses	99	4	30	43	148	324
Depreciation	24	1	6	754	29	814
All other	321	-	22	784	412	1,539
Total	\$ 4,408	\$ 25,925	\$ 1,471	\$ 5,007	\$ 7,232	\$ 44,043

	2020					
	Alumni Services	Educational and Historical	Communications and Marketing	Management and Administration	Fundraising	Total Expenses
Grants to the Academy	\$ -	\$ 16,323	\$ -	\$ -	\$ -	\$ 16,323
Grants to AWPAA	-	6,922	-	-	-	6,922
Salaries	1,705	75	765	2,130	4,346	9,021
Benefits	361	17	171	415	912	1,876
Professional services	63	-	17	640	260	980
Printing	92	-	127	13	48	280
Postage and shipping	153	-	101	2	168	424
Cost of goods sold	822	-	-	-	-	822
Employee travel	19	-	2	57	31	109
Awards and alumni events	91	-	1	47	14	153
Donor recognition	-	-	-	-	300	300
Donor acquisition	-	-	-	3	196	199
Office expenses	26	-	7	7	17	57
Building expenses	103	3	27	32	135	300
Depreciation	24	1	6	744	29	804
All other	206	11	25	430	416	1,088
Total	\$ 3,665	\$ 23,352	\$ 1,249	\$ 4,520	\$ 6,872	\$ 39,658

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

15. 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 goal 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 percent of an endowment's fair value, based on quarterly fair 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 with or without donor restriction for specific purposes, the Association uses a total return policy whereby a fixed percentage (4 percent for with donor restriction and 4.5 percent for without donor restriction) of the prior twelve quarters' fair value of investments restricted in perpetuity by donor and their related donor-restricted income accounts is available for distribution in the ensuing year for the intended endowment purposes. The endowed assets without donor restriction represent income available from donor-restricted endowments for purposes without donor restriction.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2021 and 2020
(In Thousands)

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 net assets held in perpetuity (a) the original value of gifts donated to the endowment and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in net assets to be held in perpetuity was \$139,739 and \$99,194 as of December 31, 2021 and 2020, respectively. These amounts are classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Association in a manner consistent with the Act. The endowment net assets without donor restriction represent internally-designated amounts which are appropriated for expenditure in accordance with the Association's spending policy.

From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law. These are considered to be "underwater" endowments. The Association had no underwater endowments as of December 31, 2021 and 2020.

Changes in endowed net assets for the years ended December 31, 2021 and 2020, are as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, end of year December 31, 2020	\$ 20,183	\$ 319,446	\$ 339,629
Contributions	-	18,800	18,800
Return on investment	718	3,521	4,239
Realized and unrealized gain on investment	8,758	41,070	49,828
Transfers and other, net	-	4,467	4,467
Amount appropriated for expenditure	(2,079)	(3,449)	(5,528)
Endowment net assets, end of year December 31, 2021	<u>\$ 27,580</u>	<u>\$ 383,855</u>	<u>\$ 411,435</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, end of year December 31, 2019	\$ 16,709	\$ 287,564	\$ 304,273
Contributions	-	6,273	6,273
Return on investment	856	3,893	4,749
Realized and unrealized gain on investment	4,648	20,640	25,288
Transfers and other, net	-	4,549	4,549
Amount appropriated for expenditure	(2,030)	(3,473)	(5,503)
Endowment net assets, end of year December 31, 2020	<u>\$ 20,183</u>	<u>\$ 319,446</u>	<u>\$ 339,629</u>