THE ASSOCIATION OF GRADUATES OF THE UNITED STATES MILITARY ACADEMY

d/b/a West Point Association of Graduates

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

THE ASSOCIATION OF GRADUATES OF THE UNITED STATES MILITARY ACADEMY

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates, as of December 31, 2008 and 2007, and the related statements of activities, net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Graduates of the United States Military Academy as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the 2007 financial statements have been restated as a result of the correction of errors pertaining to the accounting for certain liabilities that had been previously recorded as net assets.

UHY LLP

Albany, New York
May 12, 2009

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

	December 31, 2008	December 31, 2007 as restated
ASSETS		
Cash	**$ 1,126,862**	$ 1,829,886
Pledges receivable, net	**13,453,860**	18,065,075
Inventories and other assets	**620,066**	569,568
Investments	**129,560,524**	160,521,413
Investments restricted by agreements	**4,195,474**	4,772,366
Split interest trusts	**15,570,725**	16,022,702
Building and equipment, net	**6,311,272**	6,583,780
Total assets	**$ 170,838,783**	$ 208,364,790
LIABILITIES AND NET ASSETS		
LIABILITIES		
Notes payable	**$ -**	$ 2,345,450
Accounts payable and accrued expenses	**1,081,151**	544,040
Proffer payable	**585,327**	158,003
Deferred revenue	**2,699,450**	2,768,437
Liabilities - remainder trusts	**2,094,583**	2,860,662
Due to classes	**1,926,495**	2,039,716
Deferred compensation	**287,224**	308,574
Total liabilities	**8,674,230**	11,024,882
NET ASSETS		
Unrestricted	**15,795,883**	24,076,003
Temporarily restricted	**64,846,156**	81,364,777
Permanently restricted	**81,522,514**	91,899,128
Total net assets	**162,164,553**	197,339,908
Total liabilities and net assets	**$ 170,838,783**	$ 208,364,790

See notes to financial statements.

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

	Years Ended December 31,							
	2008				2007 as restated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Contributions	$ 80,256	$ 13,518,283	$ 2,642,397	**$ 16,240,936**	$ 56,473	$ 25,050,307	$ 7,399,080	$ 32,505,860
Bequests	-	3,122,910	660,396	**3,783,306**	103,163	1,871,744	1,513,979	3,488,886
Royalties	1,840,681	491,060	5,802	**2,337,543**	287,742	62,419	12,366	362,527
Return on investments	2,481,634	4,118,702	-	**6,600,336**	2,222,473	3,437,380	-	5,659,853
Sales - gift shop	1,216,868	-	-	**1,216,868**	1,394,131	-	-	1,394,131
Subscriptions and advertising	716,503	-	-	**716,503**	765,193	-	-	765,193
Alumni activities	811,533	97,175	-	**908,708**	860,300	(125,806)	-	734,494
Other	226,303	(18,747)	21,493	**229,049**	203,201	(5,118)	30,639	228,722
Recovery of (provision) for uncollectible pledges	-	1,788,816	1,692,897	**3,481,713**	-	(731,382)	(1,310,938)	(2,042,320)
Net assets released from restriction								
Satisfaction of program restriction	14,498,750	(14,498,750)	-	**-**	10,922,836	(10,922,836)	-	-
Reimbursement for administrative and development expenses	6,303,825	(5,236,681)	(1,067,144)	**-**	4,727,084	(3,679,797)	(1,047,287)	-
Transfers	618,318	(1,603,677)	985,359	**-**	652,956	(3,740,449)	3,087,493	-
Total revenue and support	28,794,671	1,779,091	4,941,200	**35,514,962**	22,195,552	11,216,462	9,685,332	43,097,346
Expenses								
Program services								
Alumni services	2,540,699	-	-	**2,540,699**	2,056,918	-	-	2,056,918
Educational and historical	14,484,822	-	-	**14,484,822**	11,246,850	-	-	11,246,850
Publications	732,584	-	-	**732,584**	662,222	-	-	662,222
Supporting services								-
Management and administration	3,812,420	-	-	**3,812,420**	3,745,870	-	-	3,745,870
Fund raising	3,788,620	-	-	**3,788,620**	3,469,635	-	-	3,469,635
Total expenses	25,359,145	-	-	**25,359,145**	21,181,495	-	-	21,181,495
Change in net assets before investment transactions	3,435,526	1,779,091	4,941,200	**10,155,817**	1,014,057	11,216,462	9,685,332	21,915,851
Realized and unrealized (loss) gain on investments	(11,715,646)	(33,615,526)	-	**(45,331,172)**	1,487,740	4,377,989	-	5,865,729
Change in net assets	$ (8,280,120)	$ (31,836,435)	$ 4,941,200	**$ (35,175,355)**	$ 2,501,797	$ 15,594,451	$ 9,685,332	$ 27,781,580

See notes to financial statements.

THE ASSOCIATION OF GRADUATES OF THE UNITED STATES MILITARY ACADEMY
STATEMENTS OF NET ASSETS
Years Ended December 31, 2008 and 2007

	Total Unrestricted	Total Temporarily Restricted	Total Permanently Restricted	Total
Fund balance, as previously reported 12/31/06	$ 21,574,206	$ 67,649,684	$ 82,213,796	$ 171,437,686
Effects of prior period restatement (Note 15)	-	(1,879,358)	-	(1,879,358)
Fund balance, as restated 12/31/06	21,574,206	65,770,326	82,213,796	169,558,328
Net increase in fund balance for 2007, as restated	2,501,797	15,594,451	9,685,332	27,781,580
Fund balance, as restated for 12/31/07	24,076,003	81,364,777	91,899,128	197,339,908
Net (decrease) increase in fund balance for 2008	(8,280,120)	(31,836,435)	4,941,200	(35,175,355)
Transfers	-	15,317,814	(15,317,814)	-
Fund balance, 12/31/08	$ 15,795,883	$ 64,846,156	$ 81,522,514	$ 162,164,553

See notes to financial statements.

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

	Years Ended December 31, 2008	2007 as restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (35,175,355)**	$ 27,781,580
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of securities	**(4,444,789)**	(2,510,393)
Contributions restricted for long-term investment	**(3,120,194)**	(3,815,059)
Net realized and unrealized losses (gains) on investments	**45,331,172**	(7,474,975)
Depreciation on building and equipment	**386,382**	386,527
Decrease (increase) in value of trusts	**4,105,760**	(136,743)
Changes in:		
Pledges receivable	**4,611,215**	(3,128,925)
Inventories and other assets	**(50,498)**	(13,030)
Accounts payable and accrued expenses	**537,112**	(197,297)
Proffer payable	**427,324**	(4,071,088)
Deferred revenue	**(68,987)**	299,448
Liabilities associated with charitable remainder trusts	**(766,079)**	411,054
Due to classes	**(113,221)**	160,358
Net cash provided by operating activities	**11,659,842**	7,691,457
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(50,137,637)**	(47,316,408)
Proceeds from the sale and maturity of investments	**37,233,499**	35,503,831
Purchase of building and equipment	**(113,874)**	(110,129)
Receipts from settlement of split interest agreements	**-**	1,025,470
Purchase of investments restricted for long-term purposes	**(119,598)**	(415,227)
Net cash used in investing activities	**(13,137,610)**	(11,312,463)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**-**	8,950
Payment of notes payable	**(2,345,450)**	-
Proceeds from contributions restricted for investment in endowment	**3,120,194**	3,815,059
Net cash provided by financing activities	**774,744**	3,824,009
NET INCREASE IN CASH	**(703,024)**	203,003
Cash, beginning of year	**1,829,886**	1,626,883
Cash, end of year	**$ 1,126,862**	$ 1,829,886
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	**$ 99,389**	$ 178,436

See notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Summary of Significant Accounting Policies

Basis of accounting:

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted, based upon the absence or existence and nature of donor-imposed restrictions as follows:

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

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

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

Cash and cash equivalents:

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

The Association places its cash and cash equivalents with high quality financial institutions, balances generally exceed the FDIC insurance limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to $100,000. In October 2008, the FDIC increased its insurance from $100,000 per depositor to $250,000, and to an unlimited amount for non-interest bearing accounts at participating institutions. The coverage increase, which is temporary, extends through December 31, 2009.

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

Summary of Significant Accounting Policies (Continued)

Promises to give:

Unconditional promises to give (pledges) are recognized as contribution revenue in the period received and as assets. Promises to give are recorded at net realizable value if expected to be collected in one year. Promises to give to be received after one year are discounted at an appropriate discount 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.

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

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

Inventories:

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

Valuation of Investment Portfolio:

On January 1, 2008, the Association adopted Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements,* for financial assets. SFAS No.157 provides a framework for measuring the fair value under generally accepted accounting principles. SFAS No.157 also provides guidance regarding a fair value hierarchy, which 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.

SFAS No.157 defines fair value in terms of 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. Under SFAS No.157, 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 under SFAS No.157, it is assumed that the reporting entity has access to the market as of the measurement date. If no market for the asset exists or if the reporting entity does not have access to the principal market, the reporting entity should use a hypothetical market.

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

Summary of Significant Accounting Policies (Continued)

Valuation of Investment Portfolio: (Continued)

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

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

The year long credit and liquidity crisis in the United States continues to have far-reaching implications for financial markets and the banking system. The crisis has resulted in numerous major events, including numerous instances of illiquid and otherwise challenged financial institutions, major acquisitions of banks facing failure, and the extension of government financing to financial institutions. These events, along with overall declines in economic activity have had a significant impact on the financial markets, both domestic and foreign, and on investors in those markets.

The deterioration in the credit markets and the overall challenges to the economic environment has created significant financial market volatility and illiquidity. This has resulted in significant declines in the market values of a broad range of debt and equity investments. The Association is not immune to the impacts of these market conditions. It should be noted that it is at least possible that fair market values can change rapidly in this type of volatile, quickly evolving economic environment.

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

Investments are primarily pooled in investment portfolios containing multiple funds. On a quarterly basis investment income is allocated to the individual funds within the pool based upon the market value of each fund’s cash and investments.

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

Summary of Significant Accounting Policies (Continued)

Valuation of Investment Portfolio: (Continued)

For endowments whose income is restricted for specific purposes, the Association uses a total return policy whereby a fixed percentage (4% for 2008 and 2007) of the prior twelve quarters' market value of permanently restricted investments and their related temporarily restricted income accounts is available for distribution in the ensuing year for the intended endowment purposes. For endowments whose income accounts reflected negative balances at year end, the availability of distributions is limited to interest and dividend income earned by the endowment fund during the calendar year.

Property and equipment:

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. Other equipment is depreciated over estimated useful lives of between three and ten years and the building over its useful life of forty years.

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 market value at date of donation. Absent donor restrictions to the contrary, donated securities are sold immediately. Contributions for the year ended December 31, 2008, include approximately $1,441,000 of donated securities (approximately $1,563,000 in 2007).

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.

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

Deferred revenue:

Deferred revenue consists of advance payments for subscriptions and advertising relating primarily to the Association's publication, The Assembly. Amounts received and not yet earned are reported as deferred revenue.

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.

NOTE 2 – PLEDGES RECEIVABLE

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

	December 31, 2008	December 31, 2007
Receivable in less than one year	$ 9,011,241	$ 13,706,898
Receivable in one year to five years	9,748,429	11,746,037
Receivable in more than five years	1,962,405	3,427,599
Total unconditional promises to give	20,722,075	28,880,534
Less allowance for uncollectible pledges	(5,926,504)	(9,408,216)
Less discounts to net present value	(1,341,711)	(1,407,243)
Net pledges receivable	$ 13,453,860	$ 18,065,075

NOTE 3 – INVESTMENTS

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

	December 31, 2008	December 31, 2007
Investments	$ 129,560,524	$ 160,521,413
Investments - pooled life income funds	1,964,265	2,544,690
Investments - gift annuities	2,131,702	2,131,702
Investments - gift annuity reserve	99,507	95,974
Investments restricted by agreements	4,195,474	4,772,366
	$ 133,755,998	$ 165,293,779

Investments are comprised of the following:

	December 31, 2008	December 31, 2007
Short-term investments (money markets)	$ 350,470	$ 349,957
Fixed income securities	58,605,874	63,742,490
Equity securities	51,543,304	79,751,172
Alternative investments	22,894,254	21,068,717
Mutual funds	287,225	274,626
Other	74,871	106,817
	$ 133,755,998	$ 165,293,779

NOTE 3 – INVESTMENTS (Continued)

Return on investments is comprised of the following:

	December 31, 2008	December 31, 2007
Unrestricted		
Interest, dividends and other	$ 2,761,716	$ 2,500,711
Investment expenses	(280,082)	(278,238)
	$ 2,481,634	$ 2,222,473
Temporarily restricted		
Interest, dividends and other	$ 4,809,678	$ 4,158,182
Investment expenses	(690,976)	(720,802)
	$ 4,118,702	$ 3,437,380

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

	December 31, 2008	December 31, 2007
Unrestricted		
Net realized (losses) gains on sale of investments	$ (469,121)	$ 977,341
Net unrealized (losses) gains on investments	(11,246,525)	510,399
	$ (11,715,646)	$ 1,487,740
Temporarily restricted		
Net realized (losses) gains on sale of investments	$ (1,553,688)	$ 2,827,183
Net unrealized (losses) gains on investments	(32,061,838)	1,550,806
	$ (33,615,526)	$ 4,377,989

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, 2008 was approximately $5,574,000. This investment is included in alternate investments. As capital calls are received, other investments are sold and the proceeds and available cash are used to fulfill the capital call. In addition, the Association has entered into an agreement with AEW Capital Management, LP, to invest in a real estate investment trust. This agreement contains provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreement amounts to $3,000,000. No capital had been contributed by the Association as of December 31, 2008.

NOTE 3 – INVESTMENTS (Continued)

The level of fair value inputs used to measure investments is characterized in accordance with the fair value hierarchy established by SFAS No. 157. Where inputs for an investment fall in more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's fair value measurement. Management uses judgment and considers factors specific to the investment in determining the significance of an input to a fair value measurement. The three levels of the fair value hierarchy and investments that fall into each of the levels are described as follows:

- *Level 1:* Level 1 inputs are unadjusted quoted market prices in active markets that are accessible at the measurement date for identical assets.

- *Level 2:* Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly.

- *Level 3:* Level 3 inputs are unobservable and cannot be corroborated by observable market data.

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

	Level 1	Level 2	Level 3	Total
Investments	$ 67,599,929	$ 45,663,666	$ 16,296,929	$ 129,560,524

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, 2008:

	Balance December 31, 2007	Purchases and Settlements (net)	Total Gains / (Losses) Realized and Unrealized	Balance December 31, 2008
Investments	$ 15,809,197	$ 2,244,443	$ (1,756,711)	$ 16,296,929

NOTE 4 – SPLIT INTEREST TRUSTS AND INVESTMENTS RESTRICTED BY AGREEMENTS

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

Irrevocable Trust

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

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

Remainder Trusts

Donors have established charitable remainder trusts naming the Association as the trustee. Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms (usually the designated beneficiary's lifetime). At the end of each trust's term, the remaining assets are available for the Association's use, subject to the donor-imposed restrictions. Assets held in charitable remainder trusts totaled $4,055,852 at December 31, 2008 ($5,358,062 in 2007) and are reported at fair value. On an annual basis the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($2,094,583 and $2,860,662 at December 31, 2008 and 2007, respectively) is calculated using a discount rate and applicable mortality tables.

Donors have established charitable remainder trusts for which the Association is not the Trustee. The present value of the estimated beneficial interest to be received at the end of the trusts' terms (usually the designated beneficiary's lifetime) totaled $6,114,909 at December 31, 2008 ($3,986,884 at 2007).

Perpetual Trust

A donor has established a perpetual trust under which the Association receives 35% of the Trust's 5% annual distribution. The net present value of future cash flows expected to be received from the Trust approximated $903,000 at December 31, 2008 ($1,189,000 in 2007).

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 discount for future interest is recorded as deferred revenue and approximated $848,000 at December 31, 2008 ($925,000 in 2007).

Gift Annuities

The Association receives certain gifts whereby it is contractually obligated to make periodic payments to the donor for the remainder of his or her life. In certain instances, the Association purchases annuity contracts from insurance companies to fund these obligations. Currently, gift annuity contributions are deposited into an investment portfolio at a financial institution. The assets received are recorded at fair value and an annuity payment liability is recorded as deferred revenue 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, 2008, deferred revenue associated with gift annuities approximated $1,392,000 ($1,375,000 in 2007).

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

As required by insurance law, the Association maintains an annuity reserve greater than 110% of associated liabilities. The reserve requirement is met using the specific assets and liabilities of the pooled life income funds and gift annuities as well as an additional reserve. At December 31, 2008, the Association's gift annuity and pooled life income fund assets and liabilities amounted to $4,095,967 and $2,239,111 respectively ($4,676,392 and $2,300,401 in 2007). At December 31, 2008 and 2007, the Association maintained sufficient assets in excess of liabilities to fulfill the requirement under the law. The Association maintains an additional reserve, included in investments, in a portfolio at a financial institution. At December 31, 2008, the fair value of the amount reserved was approximately $100,000 ($96,000 in 2007). The Association was in full compliance with reserve requirements under the insurance law at December 31, 2008 and 2007.

The change in split-interest trusts and investments restricted by agreements for 2008 and 2007 was as follows:

	Split-Interest Trusts				Investments Restricted by Agreements			
	Irrevocable Trust	Remainder Trusts	Perpetual Trust	Total Split Interest Trusts	Pooled Life Income Funds	Gift Annuities	Reserve	Total Investments Restricted By Agreements
Balance at December 31, 2006	$ 5,373,000	$ 9,375,782	$ 1,206,912	$ 15,955,694	$ 2,527,635	$ 1,741,431	$ 88,803	$ 4,357,869
Contributions	-	1,097,952	-	1,097,952	-	418,076	-	418,076
Distributions	-	(1,025,470)	-	(1,025,470)	(133,341)	(167,612)	-	(300,953)
Change in value	116,000	(103,318)	(18,156)	(5,474)	150,396	139,807	7,171	297,374
Balance at December 31, 2007	5,489,000	9,344,946	1,188,756	16,022,702	2,544,690	2,131,702	95,974	4,772,366
Contributions	-	3,003,450	-	3,003,450	-	119,598	-	119,598
Distributions	-	-	-	-	(15,930)	(30,227)	-	(46,157)
Change in value	(992,340)	(2,177,635)	(285,452)	(3,455,427)	(295,149)	(358,717)	3,533	(650,333)
Balance at December 31, 2008	$ 4,496,660	$ 10,170,761	$ 903,304	$ 15,570,725	$ 2,233,611	$ 1,862,356	$ 99,507	$ 4,195,474

NOTE 5 – BUILDING AND EQUIPMENT

A summary of building and equipment is as follows:

	December 31, 2008	December 31, 2007
Equipment	$ 1,240,653	$ 1,174,356
Building	9,480,057	9,432,480
	10,720,710	10,606,836
Less accumulated depreciation	4,409,438	4,023,056
	$ 6,311,272	$ 6,583,780

Depreciation expense for the year ended December 31, 2008 was approximately $386,400 ($386,500 in 2007).

NOTE 6 – PROFFER PAYABLE

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

NOTE 7 – NOTES PAYABLE

The Association has entered into the following lines of credit:

- Demand Grid Note dated December 12, 2005 with an original face value of $3,000,000 for working capital and $7,000,000 for an indoor athletic training facility, with interest rate options of LIBOR plus 1.4% or Prime Rate minus 1.25%. There was no outstanding balance on the $3,000,000 working capital demand grid note at December 31, 2008. These Grid Notes contain certain financial covenants, including maintaining a minimum of $70,000,000 in investments of which no less than $5,000,000 are unrestricted and a maximum debt to net asset ratio of no greater than .50 to 1.0. The face value of the $7,000,000 Demand Grid Note decreases as the principal is repaid and is not allowed to be increased. The balance of the indoor athletic training facility note was paid off in 2008 ($2,345,450 in 2007).

Interest expense for the year ended December 31, 2008 was approximately $99,400 ($284,000 in 2007).

NOTE 8 – DEFERRED COMPENSATION

The Association has arrangements with its executive officers whereby specified amounts of their compensation are deferred. These amounts are invested on behalf of the executives and are payable upon their retirement. At December 31, 2008, the Association's obligation pursuant to these arrangements was approximately $287,200 ($308,600 in 2007).

NOTE 9 – PENSION PLAN

The Association sponsors a defined contribution retirement plan under IRC 403(b) that allows for contributions by employees as well as the Association. Substantially all employees are eligible to participate in this plan. The Association’s contributions to the plan are based on a percentage of the employee’s elective contribution and totaled approximately $235,700 for the year ended December 31, 2008 ($211,900 for 2007).

NOTE 10 – PROPERTY LEASE

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

NOTE 11 – RESTRICTIONS ON NET ASSETS

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

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

	December 31,	
	2008	2007
Permanent endowment with no restrictions on the use of income	$ 22,112,644	$ 21,935,615
Permanent endowments with income restricted to the support of projects and programs related to the United States Military Academy and its graduates	59,409,870	69,963,513
	$ 81,522,514	$ 91,899,128

NOTE 12 – TRANSFERS

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

NOTE 13 – FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 14 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

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

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

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

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

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

Educational and Historical - Comprises activities for the dissemination of information on the history, objectives and methods of the United States Military Academy to include the encouragement of the study of military science and leadership and to enhance the image of the United States Military Academy. The Association recorded approximately $12,000,000 of proffers to the United States Military Academy in 2008 ($9,000,000 in 2007), related to educational and historical programs and support services.

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

NOTE 15 – RESTATEMENT FOR CORRECTION OF ERRORS

During 2008, the Association discovered that previously issued financial statements included certain errors which resulted in differences sufficient to require restatement of those previously issued financial statements. As a result the Association has adjusted certain statement of financial position and statement of activities amounts as of January 1, 2007 for the cumulative effect of the correction of errors prior to January 1, 2007 and restated its statement of financial position as of December 31, 2007 and its statement of activities and cash flows for the year ended December 31, 2007.

The opening balance, as of January 1, 2007, of temporarily restricted net assets has been adjusted by $1,879,358 to account for the impact of correcting the accounting for class administrative fund liabilities that were originally recorded as net assets but are, in fact, liabilities.

The 2007 ending balances in the Statement of Financial Position for temporarily restricted net assets and Due to classes have been adjusted and restated to account for the impact of correcting the accounting for Class Administration fund liabilities that were originally recorded as net assets. Adjustments and restatements were also made to account for the impact of these corrections on alumni activity costs and temporarily restricted net assets in the 2007 statement of activities.

The following table sets forth the previously reported and restated amounts of selected items within the opening statement of financial position and statement of activities as of January 1, 2007.

	As Originally Reported	Adjustment	As Restated
Selected statement of financial position data as of January 1, 2007:			
Due to classes	$ -	$ 1,879,358	$ 1,879,358
Temporarily restricted net assets	67,649,684	(1,879,358)	65,770,326
Net assets	171,437,686	(1,879,358)	169,558,328
Selected statement of activities data as of January 1, 2007:			
Temporarily restricted net assets, beginning	$ 67,649,684	$ (1,879,358)	$ 65,770,326
Net assets, beginning	171,437,686	(1,879,358)	169,558,328

NOTE 15 – RESTATEMENT FOR CORRECTION OF ERRORS (Continued)

The following sets forth the previously reported and restated amounts of selected items within the statement of financial position as of December 31, 2007 and within the statements of operations and cash flows for the year then ended.

	As Originally Reported	Adjustment	As Restated
Selected statement of financial position data as of December 31, 2007:			
Due to classes	$ -	$ 2,039,716	$ 2,039,716
Temporarily restricted net assets	83,404,493	(2,039,716)	81,364,777
Net assets	199,379,624	(2,039,716)	197,339,908
Selected statement of activities data for 2007:			
Net assets, beginning, temporarily restricted	$ 67,649,684	$ (1,879,358)	$ 65,770,326
Net assets, beginning, total	171,437,686	(1,879,358)	169,558,328
Alumni activities	1,443,541	(160,358)	1,283,183
Change in net assets, temporarily restricted	15,754,809	(160,358)	15,594,451
Change in net assets, total	27,941,938	(160,358)	27,781,580
Net assets, ending, temporarily restricted	83,404,493	(2,039,716)	81,364,777
Net assets, ending, total	199,379,624	(2,039,716)	197,339,908
Selected cash flows data for 2007:			
Change in net assets	$ 27,941,938	$ (160,358)	$ 27,781,580
Change in due to classes	-	160,358	160,358