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

Financial Statements

December 31, 2014 and 2013

BAKER TILLY

Candor. Insight. Results.

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December 31, 2014 and 2013

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Independent Auditors' Report

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

We have audited the accompanying financial statements of The Association of Graduates of the United States Military Academy, d/b/a West Point Association of Graduates (the "Association"), which comprise the statement of financial position as of December 31, 2014 and 2013, and the related statements of activities, net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Graduates of the United States Military Academy as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
May 5, 2015

The Association of Graduates of the United States Military Academy

Statement of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Cash	$ 9,635,161	$ 7,456,657
Pledges receivable, net	26,113,011	28,250,562
Inventories and other assets	590,692	597,779
Investments	294,646,174	255,336,278
Investments in transit	-	6,679,511
Split interest and other trusts	27,739,323	30,695,356
Investments restricted by agreements	5,463,424	5,926,079
Building and equipment, net	5,662,442	5,025,217
Total assets	$ 369,850,227	$ 339,967,439
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,962,252	$ 1,114,553
Proffer payable	11,764,837	1,751,357
Deferred obligations and revenue	2,901,028	3,171,882
Liabilities - remainder trusts	3,724,127	3,753,512
Due to classes	2,546,252	2,596,912
Deferred compensation	452,219	427,433
Total liabilities	23,350,715	12,815,649
Net Assets		
Unrestricted	29,770,642	27,023,997
Temporarily restricted	177,491,735	173,865,397
Permanently restricted	139,237,135	126,262,396
Total net assets	346,499,512	327,151,790
Total liabilities and net assets	$ 369,850,227	$ 339,967,439

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Activities

Years Ended December 31, 2014 and 2013

	Years Ended December 31							
	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions	$ 1,034,788	$ 28,504,198	$ 10,208,100	$ 39,747,086	$ 583,568	$ 33,899,143	$ 7,165,917	$ 41,648,628
Bequests	25,469	525,549	375,554	926,572	7,922	575,391	775,002	1,358,315
Royalties	535,390	79,914	4,603	619,907	628,670	85,398	5,046	719,114
Return on investments	3,208,269	2,934,242	-	6,142,511	2,422,221	2,615,357	-	5,037,578
Sales - gift shop	1,553,909	-	-	1,553,909	1,585,014	-	-	1,585,014
Subscriptions and advertising	257,978	-	-	257,978	208,963	-	-	208,963
Alumni activities	1,621,987	69,952	-	1,691,939	1,217,625	74,108	-	1,291,733
Other	419,395	(46,862)	-	372,533	248,361	(48,127)	6,000	206,234
Net Assets Released from Restriction								
Satisfaction of program restriction	24,962,533	(24,949,908)	(12,625)	-	17,444,196	(17,416,446)	(27,750)	-
Reimbursement for administrative and development expenses	5,283,098	(4,031,157)	(1,251,941)	-	4,979,219	(3,539,562)	(1,439,657)	-
Transfers, net	590,057	(4,855,874)	4,265,817	-	131,978	(7,361,617)	7,229,639	-
Total revenue and support	39,492,873	(1,769,946)	13,589,508	51,312,435	29,457,737	8,883,645	13,714,197	52,055,579
Expenses								
Program services								
Alumni services	3,785,149	-	-	3,785,149	3,293,621	-	-	3,293,621
Educational and historical	24,770,570	-	-	24,770,570	16,254,061	-	-	16,254,061
Communications & Marketing	912,838	-	-	912,838	973,438	-	-	973,438
(Recovery of) provision for uncollectible pledges, net	-	(877,448)	614,769	(262,679)	-	(1,034,581)	(217,143)	(1,251,724)
Supporting services								
Management and administration	3,145,934	-	-	3,145,934	3,577,518	-	-	3,577,518
Fund raising	5,167,451	-	-	5,167,451	4,797,365	-	-	4,797,365
Total expenses	37,781,942	(877,448)	614,769	37,519,263	28,896,003	(1,034,581)	(217,143)	27,644,279
Change in Net Assets Before Investment Transactions	1,710,931	(892,498)	12,974,739	13,793,172	561,734	9,918,226	13,931,340	24,411,300
Realized and Unrealized Gains on Investments	1,035,714	4,518,836	-	5,554,550	4,778,335	25,171,064	-	29,949,399
Change in Net Assets	$ 2,746,645	$ 3,626,338	$ 12,974,739	$ 19,347,722	$ 5,340,069	$ 35,089,290	$ 13,931,340	$ 54,360,699

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Net Assets
Years Ended December 31, 2014 and 2013

	Total Unrestricted	Total Temporarily Restricted	Total Permanently Restricted	Total
Net Assets, January 1, 2013	$ 21,683,928	$ 138,776,107	$ 112,331,056	$ 272,791,091
Net increase in net assets balance for 2013	5,340,069	35,089,290	13,931,340	54,360,699
Net Assets, December 31, 2013	27,023,997	173,865,397	126,262,396	327,151,790
Net increase in net assets balance for 2014	2,746,645	3,626,338	12,974,739	19,347,722
Net Assets, December 31, 2014	$ 29,770,642	$ 177,491,735	$ 139,237,135	$ 346,499,512

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 19,347,722	$ 54,360,699
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of securities, gifts in kind and other	(6,048,634)	(4,150,663)
Contributions restricted for long-term investment	(10,588,257)	(7,951,965)
Net realized and unrealized gain on investments	(5,554,550)	(29,949,399)
Depreciation on building and equipment	266,552	301,789
Increase in value of trusts	(2,529,135)	(9,618,699)
Changes in:		
Unrestricted and temporarily restricted pledges receivable	2,425,673	1,108,495
Inventories and other assets	7,086	82,847
Accounts payable, accrued expenses and deferred compensation	872,485	(207,395)
Proffer payable	10,013,480	(3,902,388)
Deferred obligations and revenue	(270,854)	(41,071)
Liabilities associated with remainder trusts	(29,385)	859,008
Due to classes	(50,660)	(27,668)
Net cash provided by operating activities	7,861,523	863,590
Cash Flows from Investing Activities		
Purchase of investments	(162,348,169)	(97,691,951)
Proceeds from sale and maturity of investments	140,913,269	81,217,790
Purchase of building improvements and equipment	(371,287)	-
Receipts from settlement of split interest agreements	5,614,786	7,568,512
Purchase of investments restricted by agreements	208,247	1,571,271
Net cash used in investing activities	(15,983,154)	(7,334,378)
Cash Flows from Financing Activities		
Proceeds from contributions	10,588,257	7,951,965
Changes in permanently restricted pledges receivable	(288,122)	465,881
Net cash provided by financing activities	10,300,135	8,417,846
Net Increase in Cash and Cash Equivalents	2,178,504	1,947,058
Cash and Cash Equivalents, Beginning	7,456,657	5,509,599
Cash and Cash Equivalents, Ending	$ 9,635,161	$ 7,456,657

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

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

On June 12, 2014, the Association created the West Point Athletics Limited Liability Corporation (the "LLC") with the Association as its sole member. The primary purpose of the LLC is to assist the Academy in its objective to improve the intercollegiate athletic program.

Basis of Accounting

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents

The Association considers highly liquid debt instruments with original maturities of three months or less to be cash equivalents, excluding amounts held in Investments.

The Association places its cash and cash equivalents with high quality financial institutions where, balances generally exceed the Federal Deposit Insurance Corporation (the “FDIC”) insurance limits. Accounts at each institution are insured by the FDIC up to $250,000 for interest and non-interest bearing accounts.

Promises to Give

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

Proffer Payable

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

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

Split-Interest and Other Trust Agreements

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

Inventories

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

Property and Equipment

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

Donated Property and Securities

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of donation. Donated marketable securities are recorded at their fair value at date of donation. Absent donor restrictions to the contrary, donated securities are sold immediately. Contributions for the year ended December 31, 2014, include $6,631,318 of donated securities ($3,663,041 in 2013).

Due to Classes

The Association maintains commingled brokerage accounts consisting of cash and investments, on behalf of various graduated classes. These assets are recorded in the statement of financial position as investments, along with an offsetting liability. This liability is presented in the statement of financial position as "Due to classes" in the amounts of $2,546,252 and $2,596,912 at December 31, 2014 and 2013, respectively.

Restricted and Unrestricted Revenue

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

Deferred Obligations and Revenue

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

Tax Status and Expense

The Association is classified for tax purposes as an organization under Section 501 (c)(3) of the Internal Revenue Code and, except for unrelated business income, is exempt from income taxes under Section 501(a) of the Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

Effective January 1, 2009, the Association adopted guidance issued by the FASB regarding accounting for uncertainty in income taxes. The income tax positions taken by the Association for any years open under the various statutes of limitations are that the Association continues to be exempt from income taxes and that the Association earns revenues from certain activities which are considered unrelated business taxable income under the Internal Revenue Code. In both 2014 and 2013, however, unrelated business income (net of applicable expenses) resulted in no material tax expense. The adoption of this guidance did not impact the Association's financial position or results of operations. The Association believes that there are no other tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax expenses or benefits within 12 months of the reporting date. None of the Association's federal or state income tax returns is currently under examination by the Internal Revenue Service ("IRS") or state authorities; however, fiscal years 2011 and later remain subject to examination by the IRS and New York State.

Use of Estimates

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

Subsequent Events

Subsequent events have been evaluated for recognition or disclosure through May 5, 2015, the date when the financial statements were available to be issued.

New Accounting Standard5

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Association will be required to adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Association will evaluate the impact of adopting this ASU on its financial statements when implementation guidance is available.

2. Pledges Receivable

Pledges receivable are written unconditional promises to give. The Association recognizes potentially uncollectible pledges and provides an allowance for the estimated uncollectible amount. Pledges receivable, net of the discount to present value (at a risk adjusted rate of 3%) and the allowance for uncollectible pledges, are as follows:

	December 31,	
	2014	2013
Receivable in less than one year	$ 11,673,520	$ 11,696,162
Receivable in one year to five years	22,614,174	26,917,234
Receivable in more than five years	5,345,530	3,381,164
Total unconditional promises to give	39,633,224	41,994,560
Less allowance for uncollectible pledges	(10,674,139)	(10,936,819)
Less discounts to net present value	(2,846,074)	(2,807,179)
Total	$ 26,113,011	$ 28,250,562

3. Investments

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

	December 31, 2014	December 31, 2013
Investments	$ 294,646,174	$ 255,336,278
Investments - pooled life income funds	2,236,129	2,187,325
Investments - gift annuities	3,019,765	3,532,930
Investments - gift annuity reserve	207,530	205,824
Investments restricted by agreements	5,463,424	5,926,079
Total	$ 300,109,598	$ 261,262,357

Investments are comprised of the following:

	December 31, 2014	December 31, 2013
Short-term investments (money markets)	$ 21,796,382	$ 12,214,160
Fixed income securities	66,478,605	55,120,495
Equity securities	163,519,599	153,976,042
Alternative investments	48,081,509	37,994,234
Other	233,503	1,957,426
Total	$ 300,109,598	$ 261,262,357

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

	December 31, 2014	December 31, 2013
Unrestricted:		
Return on investments (interest and dividends)	$ 3,208,269	$ 2,422,221
Net realized gains on sale of investments	542,773	480,443
Net unrealized gains on investments	492,941	4,297,892
	$ 1,035,714	$ 4,778,335
Temporarily restricted:		
Return on investments (interest and dividends)	$ 2,934,242	$ 2,615,357
Net realized gains on sale of investments	2,302,132	1,568,448
Net unrealized gains on investments	2,216,704	23,602,616
	$ 4,518,836	$ 25,171,064

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, 2014 was approximately $12,545,421. This investment is included in alternative investments as Level 3 in the fair value table below. As capital calls are received, other investments are sold and the proceeds and available cash are used to fulfill the capital call. The Association has also entered into an agreement with AEW Capital Management, LP, to invest in a real estate investment trust. This agreement contains provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreement amounts to $3,000,000. Capital calls funded by the Association as of December 31, 2014 are approximately $2,596,698. In accordance with these agreements, the redemption period for these funds range from 7 to 10 years and they are classified as mutual and real estate fund Level 3 investments in the fair value table below.

The Association has entered into a new agreement in 2014 with SVB Strategic Investors Fund VII, LP. The agreement contains provisions for capital calls by the partner up to specified amounts. The total capital committed under the agreement amounts to $1,000,000. There were no capital calls in 2014. The redemption period for this agreement is five years.

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

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

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

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

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

- Short-term investments consist of money market funds in which the carrying value approximates fair value because of the short maturity of these instruments.
- Fixed income and equity funds classified as Level 1 are valued at the last sales price on the date of valuation or, if no sale occurred on such date, at the last bid price thereon.
- Equity, real estate and limited partnerships classified as Level 2 or 3 are valued based on the net asset value (NAV) of a share. Fair value is determined by reference to the fund's reported NAV per share as a practical expedient, unless it is probable that the investment will be disposed at some value other than NAV per share in which case reference would be made to the expected disposal price or other indicators of value. The investments valued using the NAV per share include a strategy that invests in publicly traded equity securities, fixed income securities and marketable alternative investments. These funds do not have redemption restrictions or commitments.
- Fund of funds and real estate funds classified as Level 3 include private capital securities that are generally valued according to the "mark-to-market method" which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations or the income approach, in which market expectations of future cash flows or earnings are converted to a present value. However, in some instances, it may be most appropriate to value an investment at cost, if little has changed since the initial investment in the company. This valuation process is often used in the early years of investments in a private company, and in these instances cost is reflective of fair value.

The following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2014 and 2013 where carrying value equals fair value (refer to Note 4 for split-interests and other trusts):

	2014			
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
Short-term investments	$ 21,680,120	$ 116,262	$ -	$ 21,796,382
Fixed income funds				
Mortgage backed	18,851,185	-	-	18,851,185
Government funds	47,627,420	-	-	47,627,420
Equity funds				
Domestic equity	13,616,799	71,406,010	-	85,022,809
International equity	78,496,790	-	-	78,496,790
Alternative investments				
Limited Partnerships	-	-	36,060,824	36,060,824
Fund of funds	-	-	4,440,211	4,440,211
Real estate funds	-	5,851,349	1,729,125	7,580,474
Other	233,503	-	-	233,503
Total	$ 180,505,817	$ 77,373,621	$ 42,230,160	$ 300,109,598

	2013			
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
Short-term investments	$ 12,007,627	$ 206,533	$ -	$ 12,214,160
Fixed income funds				
Mortgage backed	21,960,226	-	-	21,960,226
Corporate funds	14,734,301	-	-	14,734,301
Government funds	18,425,968	-	-	18,425,968
Equity funds				
Domestic equity	19,232,650	62,080,942	-	81,313,592
International equity	72,662,450	-	-	72,662,450
Alternative investments				
Limited Partnerships	-	-	26,625,342	26,625,342
Fund of funds	-	-	4,947,205	4,947,205
Real estate funds	-	3,861,732	2,559,955	6,421,687
Other	1,957,426	-	-	1,957,426
Total	$ 160,980,648	$ 66,149,207	$ 34,132,502	$ 261,262,357

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:

	2014	2013
Balance, beginning of year	$ 34,132,502	$ 36,352,966
Purchases	9,453,252	2,502,842
Earnings	3,012,610	4,333,097
Sales	(4,368,204)	(9,056,403)
Balance, end of year	$ 42,230,160	$ 34,132,502

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

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

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

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

Irrevocable Trusts and Others

Donors have established irrevocable trusts held by third party trustees. The trusts consist of various investment portfolios. Pursuant to the trust agreements, the donors designated beneficiary is entitled to the income earned on the trust during the beneficiary's lifetime and upon death the assets in the trust will be available to the Association. The present value of the estimated amount to be received was calculated using a risk adjusted discount rate (approximately 5%) and the applicable mortality table and is $7,381,983 at December 31, 2014 ($8,227,095 at 2013).

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 $7,034,430 at December 31, 2014 ($6,985,453 in 2013) and are recorded at estimated realizable value. On an annual basis the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($3,724,127 and $3,753,512 at December 31, 2014 and 2013, respectively) is calculated using a discount rate (approximately 3%) and applicable mortality tables.

Donors have established charitable remainder trusts for which the Association is not the trustee. The present value of the estimated beneficial interest to be received at the end of the trusts' terms (usually the designated beneficiary's lifetime) totaled $12,290,373 at December 31, 2014 ($14,429,762 at 2013).

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 $1,032,537 at December 31, 2014 ($1,053,046 in 2013).

Pooled Life Income Funds

The Association has a pooled life income fund whereby donors contribute into an investment pool and are assigned a specific number of units. The donor or designated beneficiary receives an allocation of income on a quarterly basis. Upon the death of the beneficiary, the value of the assigned units reverts to the Association. The Association's remainder interest in the assets received is measured at the fair value of the assets to be received discounted for the estimated time period until the death of the designated beneficiary using the applicable mortality tables. Assets held in pooled life income funds totaled $2,236,129 at December 31, 2014 ($2,187,325 in 2013). The liability for future payments is recorded as deferred obligations and approximated $847,814 at December 31, 2014 ($863,860 in 2013).

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. Assets held in gift annuities accounts totaled $3,019,765 at December 31, 2014 ($3,532,930 in 2013). At December 31, 2014, deferred obligations associated with gift annuities approximated $1,758,388 ($1,992,227 in 2013).

As required by insurance law, the Association maintains an annuity reserve greater than 115% of associated liabilities. The reserve requirement is met using the specific assets and liabilities of the pooled life income funds and gift annuities as well as an additional reserve. At December 31, 2014, the Association's gift annuity and pooled life income fund assets and liabilities amounted to $5,255,894 and $2,606,202 respectively ($5,720,255 and $2,856,087 in 2013). At December 31, 2014 and 2013, 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, 2014, the fair value of the amount reserved was approximately $207,530 ($205,824 in 2013). The Association was in full compliance with reserve requirements under the insurance law at December 31, 2014 and 2013.

The split-interest and other trusts are considered Level 3 investments as defined in Note 3. The changes in split-interest and other trusts for 2014 and 2013 were as follows:

	Split-Interest and Other Trusts			
	Irrevocable & Other Trusts	Remainder Trusts	Perpetual Trust	Total Split Interest & Other Trusts
Balance at December 31, 2012	$ 12,579,215	$ 14,042,769	$ 1,006,577	$ 27,628,561
Contributions	557,585	7,171,204	-	7,728,789
Cash realized	(7,198,353)	(319,830)	(50,329)	(7,568,512)
Change in value	2,288,648	521,072	96,798	2,906,518
Balance at December 31, 2013	8,227,095	21,415,215	1,053,046	30,695,356
Contributions	2,970,141	1,568,880	-	4,539,021
Cash realized	(4,414,983)	(1,147,151)	(52,652)	(5,614,786)
Write-offs	(239,230)	(3,421,850)	-	(3,661,080)
Change in value	838,960	909,709	32,143	1,780,812
Balance at December 31, 2014	$ 7,381,983	$ 19,324,803	$ 1,032,537	$ 27,739,323

The changes in investments restricted by agreements for 2014 and 2013 were as follows:

	Investments Restricted by Agreements			
	Pooled Life Income Funds	Gift Annuities	Reserve	Total Investments Restricted by Agreements
Balance at December 31, 2012	$ 2,274,493	$ 2,919,078	$ 210,358	$ 5,403,929
Contributions	-	534,220	-	534,220
Cash realized	(32,514)	-	-	(32,514)
Change in value	(54,654)	79,632	(4,534)	20,444
Balance at December 31, 2013	2,187,325	3,532,930	205,824	5,926,079
Contributions	-	78,910	-	78,910
Cash realized	(13,160)	(528,124)	-	(541,284)
Change in value	61,964	(63,951)	1,706	(281)
Balance at December 31, 2014	$ 2,236,129	$ 3,019,765	$ 207,530	$ 5,463,424

5. Building and Equipment

A summary of building and equipment is as follows:

	December 31, 2014	December 31, 2013
Equipment	$ 590,824	$ 580,190
Building & Improvements	9,989,440	9,496,352
Furniture & Fixtures	400,055	-
	10,980,319	10,076,542
Less accumulated depreciation	5,317,877	5,051,325
Total	$ 5,662,442	$ 5,025,217

Depreciation expense was $266,552 and $301,789 as of December 31, 2014 and 2013, respectively.

6. Lines of Credit

The Association has entered into a $7,000,000 line of credit with a bank. This line was established under a working capital support agreement dated June 16, 2014, with interest rate options of LIBOR plus 1.4% or Prime Rate minus 1.25%. There were no outstanding balances at December 31, 2014 or 2013. The credit line expires on June 30, 2015.

The Association incurred no interest expense for the years ended December 31, 2014 and 2013.

7. Deferred Compensation

The Association has arrangements with its executive officers whereby specified amounts of their compensation are deferred. These amounts are invested on behalf of the executives and are payable upon their retirement. At December 31, 2014, the Association's obligation pursuant to these arrangements was approximately $452,219 ($427,433 in 2013).

8. Pension Plan

The Association sponsors a defined contribution retirement plan under IRC 403(b) that allows for contributions by employees as well as the Association. Substantially all employees are eligible to participate in this plan. The Association's contributions to the plan are based on a percentage of the employee's elective contribution and totaled approximately $301,402 for the year ended December 31, 2014 ($285,788 for 2013).

9. Property Lease

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

10. Restrictions on Net Assets

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

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

	December 31,	
	2014	2013
Permanent endowment with no restrictions on the use of income	$ 32,359,442	$ 26,525,101
Permanent endowments with income restricted to the support of projects and programs related to the United States Military Academy and its graduates	106,877,693	99,737,295
Total	$ 139,237,135	$ 126,262,396

11. Transfers

Transfers are made among the net asset classes to reclassify previously recognized revenue that has been re-allocated based upon the occurrence of certain events or the determination that a transfer is needed to reflect the donors' intent for the contribution. The Association ensures donors' consent before making net asset transfers from temporarily restricted to permanently restricted.

12. Functional Allocation of Expenses

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

13. Description of Program and Supporting Services

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

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

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

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

Educational and Historical - Provides gift funds and assets to the United States Military Academy ("USMA") with the purpose to include the encouragement of the study of leadership and to enhance the image of the United States Military Academy. The Association recorded $24,787,487 of grants to the United States Military Academy in 2014 ($16,271,096 in 2013), related to educational and historical programs and support services.

Alumni Services - Encompasses activities, support and services provided to graduates including events, awards and the maintenance of detailed biographical and historical records on graduates of the United States Military Academy and includes expenses for the operation of a gift shop.

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

	2014	2013
Grants to USMA	$ 24,770,570	$ 16,254,061
Salaries	6,310,868	5,551,770
Benefits	1,187,999	1,070,426
Professional services	1,115,117	1,638,038
Printing	185,853	184,523
Postage and shipping	392,435	301,983
Cost of goods sold	842,485	807,889
Employee travel	206,636	199,405
Awards and alumni events	1,096,781	745,337
Donor recognition expense	201,261	614,974
Donor acquisition	324,616	319,168
Office expenses	89,410	87,928
Building expenses	295,303	274,538
Depreciation	260,252	293,013
All other	502,356	552,950
Total	$ 37,781,942	$ 28,896,003

Professional services includes services received for various donor contributions and the amount of services utilized is dependent on the complexity of the donor awards. Donor recognition expense in 2013 includes incremental costs related to the public phase of our comprehensive campaign.

14. Endowment

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

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

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

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

For endowments whose income is unrestricted or restricted for specific purposes, the Association uses a total return policy whereby a fixed percentage (4% for restricted and 5% for unrestricted in 2014 and 2013) of the prior twelve quarters' market value of permanently restricted investments and their related temporarily restricted income accounts is available for distribution in the ensuing year for the intended endowment purposes. The unrestricted endowed assets represent income available for unrestricted purposes. If endowments have negative balances in their income accounts at year end, the availability of distributions is limited to interest and dividend income earned by the endowment fund during the calendar year.

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year, December 31, 2013	$ 10,944,057	$ 46,848,993	$ 126,262,396	$ 184,055,446
Contributions	-	117,878	10,101,234	10,219,112
Return on investment	1,087,938	1,998,802	-	3,086,740
Realized and unrealized gain on investment	1,128,269	3,262,801	-	4,391,070
Transfers and other, net	647,869	(2,380,959)	2,873,505	1,140,415
Amount appropriated for expenditure	(1,858,977)	(2,510,080)	-	(4,369,057)
Endowment net assets, end of year, December 31, 2014	$ 11,949,156	$ 47,337,435	$ 139,237,135	$ 198,523,726

Changes in endowed net assets for the year ended December 31, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, end of year, December 31, 2012	$ 6,677,389	$ 27,009,293	$ 112,331,056	$ 146,017,738
Contributions	-	487,971	7,940,919	8,428,890
Return on investment	525,686	1,909,532	-	2,435,218
Realized and unrealized gain on investment	5,084,536	19,340,261	-	24,424,797
Transfers and other, net	-	786,790	5,990,421	6,777,211
Amount appropriated for expenditure	(1,343,554)	(2,684,854)	-	(4,028,408)
Endowment net assets, end of year, December 31, 2013	$ 10,944,057	$ 46,848,993	$ 126,262,396	$ 184,055,446

15. Reclassifications

Certain reclassifications have been made to the 2013 balances previously reported to conform to the current year presentation.

16. Contingency

The Association has recorded an interest in an irrevocable trust which was established pursuant to a court order. During 2014, the Association received notice which challenged the entitlement of a portion of such trust. Accordingly, the ultimate outcome of this matter cannot be determined at this time. However, management believes that any adjustment arising as a result of this dispute will not have a material adverse effect on the financial position or results of operations of the Association.