

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

Financial Statements

December 31, 2017 and 2016



Candor. Insight. Results.

The Association of Graduates of the United States Military Academy

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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, 2017 and 2016, and the related statements of activities, net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Graduates of the United States Military Academy as of December 31, 2017 and 2016, and the results of its activities, changes in 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 9, 2018

The Association of Graduates of the United States Military Academy

Statement of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 14,151,500	\$ 5,173,882
Pledges receivable, net	15,496,043	20,160,863
Inventories and other assets	544,856	529,045
Investments	363,212,479	330,945,595
Split-interest and other trusts	21,745,421	20,941,495
Investments restricted by agreements	6,240,354	5,859,588
Building and equipment, net	7,413,004	7,209,300
	<u>7,413,004</u>	<u>7,209,300</u>
Total assets	<u>\$ 428,803,657</u>	<u>\$ 390,819,768</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,146,407	\$ 2,523,542
Proffer payable	15,513,225	22,464,156
Deferred obligations and revenue	4,077,560	4,202,024
Liabilities - remainder trusts	4,719,685	4,345,997
Due to classes	2,553,238	2,469,563
Deferred compensation	633,213	615,603
	<u>633,213</u>	<u>615,603</u>
Total liabilities	<u>30,643,328</u>	<u>36,620,885</u>
Net Assets		
Unrestricted	44,721,643	36,158,947
Temporarily restricted	172,101,119	147,520,914
Permanently restricted	181,337,567	170,519,022
	<u>181,337,567</u>	<u>170,519,022</u>
Total net assets	<u>398,160,329</u>	<u>354,198,883</u>
Total liabilities and net assets	<u>\$ 428,803,657</u>	<u>\$ 390,819,768</u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Activities

Years Ended December 31, 2017 and 2016

	Years Ended December 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions	\$ 762,565	\$ 32,260,989	\$ 4,657,831	\$ 37,681,385	\$ 682,592	\$ 28,197,677	\$ 6,086,779	\$ 34,967,048
Bequests	826,148	631,659	55,949	1,513,756	214,048	2,206,330	2,162,614	4,582,992
Royalties	453,984	80,369	4,435	538,788	540,568	76,264	3,640	620,472
Return on investments	4,274,099	1,388,544	-	5,662,643	3,079,476	669,245	-	3,748,721
Sales - gift shop	2,181,425	-	-	2,181,425	1,860,237	-	-	1,860,237
Subscriptions and advertising	261,786	-	-	261,786	232,439	-	-	232,439
Alumni activities	880,149	18,126	-	898,275	739,079	38,465	-	777,544
Other	334,564	(39,033)	-	295,531	305,440	(32,051)	-	273,389
Net Assets Released from Restriction								
Satisfaction of program restriction	35,058,846	(35,058,846)	-	-	42,991,275	(42,988,775)	(2,500)	-
Reimbursement for administrative and development expenses	5,103,481	(4,309,158)	(794,323)	-	5,673,243	(4,837,444)	(835,799)	-
Transfers, net	230,073	(6,339,785)	6,109,712	-	5,007,351	(11,478,198)	6,470,847	-
Total revenue and support	50,367,120	(11,367,135)	10,033,604	49,033,589	61,325,748	(28,148,487)	13,885,581	47,062,842
Expenses								
Program services:								
Alumni services	3,613,870	-	-	3,613,870	3,096,651	-	-	3,096,651
Educational and historical	34,695,979	-	-	34,695,979	42,332,392	-	-	42,332,392
Communications and marketing	1,177,167	-	-	1,177,167	1,129,740	-	-	1,129,740
Recovery of uncollectible pledges, net	-	(1,192,061)	(784,941)	(1,977,002)	-	(775,369)	(532,725)	(1,308,094)
Supporting services:								
Management and administration	3,780,091	-	-	3,780,091	3,730,448	-	-	3,730,448
Fund raising	6,772,268	-	-	6,772,268	6,801,692	-	-	6,801,692
Total expenses	50,039,375	(1,192,061)	(784,941)	48,062,373	57,090,923	(775,369)	(532,725)	55,782,829
Change in Net Assets Before Investment Transactions	327,745	(10,175,074)	10,818,545	971,216	4,234,825	(27,373,118)	14,418,306	(8,719,987)
Net Realized and Unrealized Gains on Investments	8,234,951	34,755,279	-	42,990,230	2,472,608	10,441,871	-	12,914,479
Change in Net Assets	\$ 8,562,696	\$ 24,580,205	\$ 10,818,545	\$ 43,961,446	\$ 6,707,433	\$ (16,931,247)	\$ 14,418,306	\$ 4,194,492

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Net Assets

Years Ended December 31, 2017 and 2016

	<u>Total Unrestricted</u>	<u>Total Temporarily Restricted</u>	<u>Total Permanently Restricted</u>	<u>Total</u>
Net Assets, January 1, 2016	\$ 29,451,514	\$ 164,452,161	\$ 156,100,716	\$ 350,004,391
Net (decrease) increase in net assets balance for 2016	<u>6,707,433</u>	<u>(16,931,247)</u>	<u>14,418,306</u>	<u>4,194,492</u>
Net Assets, December 31, 2016	36,158,947	147,520,914	170,519,022	354,198,883
Net increase in net assets balance for 2017	<u>8,562,696</u>	<u>24,580,205</u>	<u>10,818,545</u>	<u>43,961,446</u>
Net Assets, December 31, 2017	<u><u>\$ 44,721,643</u></u>	<u><u>\$ 172,101,119</u></u>	<u><u>\$ 181,337,567</u></u>	<u><u>\$ 398,160,329</u></u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 43,961,446	\$ 4,194,492
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for long-term investment	(4,718,215)	(8,253,033)
Net realized and unrealized gain on investments	(42,990,230)	(12,914,479)
Depreciation on building and equipment	566,920	549,051
Increase in value of trusts and investments restricted by agreements	(2,006,833)	(1,836,025)
Changes in:		
Unrestricted and temporarily restricted pledges receivable	2,541,446	2,369,533
Inventories and other assets	(15,811)	63,011
Accounts payable, accrued expenses and deferred compensation	640,475	747,334
Proffer payable	(6,950,931)	9,734,787
Deferred obligations and revenue	(124,464)	784,608
Liabilities associated with remainder trusts	373,688	197,941
Due to classes	83,675	(150,364)
Net cash used in operating activities	<u>(8,638,834)</u>	<u>(4,513,144)</u>
Cash Flows from Investing Activities		
Purchase of investments	(105,760,534)	(151,828,825)
Proceeds from sale and maturity of investments	116,483,880	139,410,915
Purchase of building improvements and equipment	(770,624)	(510,405)
Receipts from settlement of split-interest agreements	1,240,414	8,353,111
Purchase of investments restricted by agreements	<u>(418,273)</u>	<u>(1,392,965)</u>
Net cash provided by (used in) investing activities	<u>10,774,863</u>	<u>(5,968,169)</u>
Cash Flows from Financing Activities		
Proceeds from contributions	4,718,215	8,253,033
Changes in permanently restricted pledges receivable	<u>2,123,374</u>	<u>(10,659)</u>
Net cash provided by financing activities	<u>6,841,589</u>	<u>8,242,374</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,977,618	(2,238,939)
Cash and Cash Equivalents, Beginning	<u>5,173,882</u>	<u>7,412,821</u>
Cash and Cash Equivalents, Ending	<u>\$ 14,151,500</u>	<u>\$ 5,173,882</u>

See notes to financial statements

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

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

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

Basis of Accounting

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

Basis of Presentation

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

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

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

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

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
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Cash and Cash Equivalents

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

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

Promises to Give

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

Proffer Payable

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

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

Split-Interest and Other Trust Agreements

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

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Building and Equipment

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

Donated Property and Securities

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of donation. Donated marketable securities are recorded at their fair value at date of donation. Absent donor restrictions to the contrary, donated securities are sold immediately. Contributions for the year ended December 31, 2017, include \$6,106,725 of donated securities (\$6,218,201 in 2016).

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 \$2,553,238 and \$2,469,563 at December 31, 2017 and 2016, 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 restricted, or permanently restricted net assets. When a restriction expires (that is, when the purpose restriction is accomplished or time restriction passes), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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 Code and, except for unrelated business income, is exempt from income taxes under Section 501(a) of the Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
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The income tax positions taken by the Association for any years open under the various statutes of limitations are that the Association continues to be exempt from income taxes and that the Association earns revenues from certain activities which are considered unrelated business taxable income under the Code. In both 2017 and 2016, however, unrelated business income (net of applicable expenses) resulted in no material tax expense. The Association believes that there are no other tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax expenses or benefits within 12 months of the reporting date. None of the Association's federal or state income tax returns is currently under examination by the Internal Revenue Service ("IRS") or state authorities.

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.

Reclassifications

Certain reclassifications have been made to the 2016 balances previously reported to conform to the current year presentation. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Subsequent Events

Subsequent events have been evaluated for recognition or disclosure through May 9, 2018, the date when the financial statements were available to be issued.

New Accounting Standards

In May 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. In addition, ASU No. 2015-07 removes the requirement to make certain disclosures for all investments eligible to be measured at fair value using the net asset value per share practical expedient and limits the disclosures to investments which the entity has elected to measure at fair value using that practical expedient. ASU 2015-07 requires retrospective application and is effective for fiscal years beginning after December 15, 2015 (non-public for fiscal years beginning after December 15, 2016) with early adoption permitted. The effect of the required retrospective application of this change did not have a material effect on the Association's financial statements.

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In May 2014, the FASB issued 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 the year beginning January 1, 2019. The Association does not believe the adoption of this standard will have a material impact on its financial position or activities.

During August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for the year beginning January 1, 2018. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Association is currently assessing the effect that ASU No. 2016-14 will have on its financial statements.

During November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explains the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied using the retrospective transition method to each period presented. The Association is currently assessing the effect that ASU No. 2016-18 will have on its statement of cash flows.

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
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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,	
	2017	2016
Receivable in less than one year	\$ 6,020,056	\$ 9,601,813
Receivable in one year to five years	15,544,470	17,320,877
Receivable in more than five years	1,857,485	3,826,212
Total unconditional promises to give	23,422,011	30,748,902
Less allowance for uncollectible pledges	(6,276,019)	(8,253,021)
Less discounts to net present value	(1,649,949)	(2,335,018)
Total	<u>\$ 15,496,043</u>	<u>\$ 20,160,863</u>

3. Investments

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

	December 31,	
	2017	2016
Investments	\$ 363,212,479	\$ 330,945,595
Investments - pooled life income funds	1,305,949	1,293,503
Investments - gift annuities	4,934,405	4,566,085
Investments restricted by agreements	6,240,354	5,859,588
Total	<u>\$ 369,452,833</u>	<u>\$ 336,805,183</u>

Investments are comprised of the following:

	December 31,	
	2017	2016
Short-term investments (money markets)	\$ 17,952,729	\$ 30,715,100
Fixed income funds	54,437,311	59,574,607
Equity securities	245,970,884	193,750,178
Alternative investments	50,284,845	51,215,561
Other	807,064	1,549,737
Total	<u>\$ 369,452,833</u>	<u>\$ 336,805,183</u>

The Association of Graduates of the United States Military Academy

Notes to Financial Statements
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Return on investments, gains and losses on investment transactions are comprised of the following:

	December 31,	
	2017	2016
Unrestricted:		
Return on investments (interest and dividends)	\$ 4,274,099	\$ 3,079,476
Net realized gains on sale of investments	\$ 1,062,566	\$ 384,238
Net unrealized gains on investments	7,172,385	2,088,370
	<u>\$ 8,234,951</u>	<u>\$ 2,472,608</u>
Temporarily restricted:		
Return on investments (interest and dividends)	\$ 1,388,544	\$ 669,245
Net realized gains on sale of investments	\$ 4,518,087	\$ 1,884,258
Net unrealized gains on investments	30,237,192	8,557,613
	<u>\$ 34,755,279</u>	<u>\$ 10,441,871</u>

Investment gains (losses) on permanently restricted net assets are reported as increases (decreases) in unrestricted or temporarily restricted net assets depending upon donor restrictions placed on the use of the investment income.

4. 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.

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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 inputs are 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, 2017 and 2016 where carrying value equals fair value (refer to Note 5 for split-interests and other trusts):

	2017			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	\$ 17,806,401	\$ 146,328	\$ -	\$ 17,952,729
Fixed income funds:				
Mortgage backed	7,994,710	-	-	7,994,710
Government funds	46,442,601	-	-	46,442,601
Equity funds:				
Domestic equity	19,878,638	-	-	19,878,638
International equity	98,136,587	-	-	98,136,587
Alternative investments:				
Fund of funds	-	-	2,895,231	2,895,231
Real estate funds	-	-	1,229,531	1,229,531
Other	807,064	-	-	807,064
Total assets in the fair value hierarchy	<u>\$ 191,066,001</u>	<u>\$ 146,328</u>	<u>\$ 4,124,762</u>	195,337,091
Assets recorded at net asset value (a)				<u>174,115,742</u>
Assets at fair value				<u>\$ 369,452,833</u>

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Notes to Financial Statements
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	2016			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	\$ 30,566,766	\$ 148,334	\$ -	\$ 30,715,100
Fixed income funds:				
Mortgage backed	12,584,251	-	-	12,584,251
Government funds	46,990,356	-	-	46,990,356
Equity funds:				
Domestic equity	17,721,343	-	-	17,721,343
International equity	76,888,134	-	-	76,888,134
Alternative investments:				
Fund of funds	-	-	3,054,218	3,054,218
Real estate funds	-	-	1,847,010	1,847,010
Other	1,549,737	-	-	1,549,737
Total	\$ 186,300,587	\$ 148,334	\$ 4,901,228	\$ 191,350,149
Assets recorded at net asset value (a)				<u>145,455,034</u>
Assets at fair value				<u>\$ 336,805,183</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 statement of financial position.

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 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.
- 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.

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The Association has entered into several agreements with Commonfund, a non-profit 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 \$5,000,000 and the total amount of capital contributed to the partnerships by the Association as of December 31, 2017 was \$4,852,000. 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 \$3,000,000. Capital calls funded by the Association as of December 31, 2017 are \$2,720,518. In accordance with these agreements, the redemption period for these funds range from 7 to 10 years and they are classified as fund of funds and real estate 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 following table sets forth a summary of changes in fair value of investments measured using Level 3 inputs for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 4,901,228	\$ 5,178,063
Purchases	142,500	37,500
Earnings	235,036	281,058
Sales	<u>(1,154,002)</u>	<u>(595,393)</u>
Balance, end of year	<u>\$ 4,124,762</u>	<u>\$ 4,901,228</u>

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

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

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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, 2017 and 2016:

	2017		
	Fair Value	Unfunded Commitments	Redemption Restriction
Domestic equity funds	\$ 127,955,659	\$ -	None
JP Morgan real estate fund	7,664,676	-	Quarterly with 60 days' notice
Commonfund	3,157,289	457,459	None
SVB Strategic Investors Fund VII, LP	631,915	382,500	None
Institutional Venture Partners XV, LP	680,979	280,000	None
Oaktree Private Investment Fund IV, LP	958,514	3,180,000	None
Kimmeridge Mineral Fund LP.	781,967	241,016	None
Encap Energy Capital Fund XI LP	142,294	3,857,706	None
Chequers Capital XVII LP	48,032	2,234,265	None
ABS Offshore SPC Class R LP	13,672,130	-	Quarterly with 45 days' notice
Weatherlow Offshore Fund I	12,897,770	-	Quarterly after 1 year lock-up expiration with 65 days' notice
York Credit Opportunities Unit Trust	5,524,517	-	Annual with 60 days' notice
EnCap Flatrock Midstream Fund IV, LP	-	1,500,000	None
Institutional Venture Partners XVI	-	2,000,000	None
Sentinel Capital Partners VI, LP	-	4,000,000	None
Water Street Healthcare Partners IV, LP	-	2,000,000	None
Total	<u>\$ 174,115,742</u>	<u>\$ 20,132,946</u>	

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	2016		
	Fair Value	Unfunded Commitments	Redemption Restriction
Domestic equity funds	\$ 99,140,701	\$ -	None
JP Morgan real estate fund	7,135,287	-	Quarterly with 60 days' notice
Commonfund	4,136,026	505,209	None
SVB Strategic Investors Fund VII, LP	367,612	620,000	None
Institutional Venture Partners XV, LP	353,231	600,000	None
Oaktree Private Investment Fund IV, LP	715,527	3,320,000	None
ABS Offshore SPC Class R LP	12,017,542	-	Quarterly with 45 days' notice
Weatherlow Offshore Fund I	12,209,300	-	Quarterly after 1 year lock-up expiration with 65 days' notice
York Investment LTD	4,515,152	-	Annual with 60 days' notice
York Credit Opportunities Unit Trust	4,864,656	-	Annual with 60 days' notice
Total	<u>\$ 145,455,034</u>	<u>\$ 5,045,209</u>	

5. 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 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 5%) and the applicable mortality table.

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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 \$7,771,422 at December 31, 2017 (\$6,992,470 in 2016) and are recorded at estimated realizable value. On an annual basis the Association revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$4,719,685 and \$4,345,997 at December 31, 2017 and 2016, 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 \$9,773,753 at December 31, 2017 (\$9,071,159 at 2016).

Perpetual Trust

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

Pooled Life Income Funds

The Association has a pooled life income fund whereby donors contribute into an investment pool and are assigned a specific number of units. The donor or designated beneficiary receives an allocation of income on a quarterly basis. Upon the death of the beneficiary, the value of the assigned units reverts to the Association. The Association's remainder interest in the assets received is measured at the fair value of the assets to be received discounted for the estimated time period until the death of the designated beneficiary using the applicable mortality tables. The liability for future payments is recorded as deferred obligations and approximated \$633,857 at December 31, 2017 (\$650,473 in 2016).

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, 2017, deferred obligations associated with gift annuities approximated \$3,194,708 (\$3,253,701 in 2016).

As required by insurance law, the Association maintains an annuity reserve greater than 115% of associated liabilities. The reserve requirement is met using the specific assets and liabilities of the pooled life income funds and gift annuities. At December 31, 2017 and 2016, 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, 2017 and 2016.

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The changes in split-interest and other trusts for 2017 and 2016 were as follows:

	Split-Interest and Other Trusts			Total Split-Interest and Other Trusts
	Irrevocable and Other Trusts	Remainder Trusts	Perpetual Trust	
Balance at December 31, 2015	\$ 5,652,943	\$ 20,534,347	\$ 943,644	\$ 27,130,934
Contributions	1,060,093	594,262	-	1,654,355
Cash realized	(2,847,110)	(5,458,819)	(47,182)	(8,353,111)
Change in value	66,413	393,839	49,065	509,317
Balance at December 31, 2016	3,932,339	16,063,629	945,527	20,941,495
Contributions	182,129	319,988	-	502,117
Cash realized	(995,495)	(197,642)	(47,277)	(1,240,414)
Change in value	71,684	1,359,200	111,339	1,542,223
Balance at December 31, 2017	<u>\$ 3,190,657</u>	<u>\$ 17,545,175</u>	<u>\$ 1,009,589</u>	<u>\$ 21,745,421</u>

The changes in investments restricted by agreements for 2017 and 2016 were as follows:

	Investments Restricted by Agreements		
	Pooled Life Income Funds	Gift Annuities	Total Investments Restricted by Agreements
Balance at December 31, 2015	\$ 1,296,723	\$ 3,497,547	\$ 4,794,270
Contributions	-	1,175,000	1,175,000
Cash realized	(3,267)	-	(3,267)
Change in value	47	(106,462)	(106,415)
Balance at December 31, 2016	1,293,503	4,566,085	5,859,588
Contributions	-	226,876	226,876
Cash realized	(12,140)	(112,888)	(125,028)
Change in value	24,586	254,332	278,918
Balance at December 31, 2017	<u>\$ 1,305,949</u>	<u>\$ 4,934,405</u>	<u>\$ 6,240,354</u>

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6. Building and Equipment

A summary of building and equipment is as follows:

	December 31,	
	2017	2016
Building and improvements	\$ 11,273,612	\$ 11,273,612
Computer equipment and software	1,661,400	890,776
Furniture and fixtures	886,261	886,261
Equipment	70,591	70,591
	13,891,864	13,121,240
Less accumulated depreciation	6,478,860	5,911,940
Total	<u>\$ 7,413,004</u>	<u>\$ 7,209,300</u>

Depreciation expense was \$566,920 and \$549,051 for the years ended December 31, 2017 and 2016, respectively.

7. Line 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 29, 2017, with interest rate options of LIBOR plus 1.40% or Prime Rate minus 1.25%. There was no outstanding balance at December 31, 2017. The credit line does not expire.

The Association incurred no interest expense for the years ended December 31, 2017 and 2016.

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

	2017	2016
Investments	<u>\$ 633,213</u>	<u>\$ 615,603</u>
Deferred compensation liability	<u>\$ (633,213)</u>	<u>\$ (615,603)</u>

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9. Pension Plan

The Association sponsors a defined contribution retirement plan under Section 403(b) of the Code that allows for contributions by employees as well as the Association. Substantially all employees are eligible to participate in this plan. The Association's contributions to the plan are based on a percentage of the employee's elective contribution and totaled approximately \$374,216 for the year ended December 31, 2017 (\$365,657 for 2016).

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.

11. Restrictions on Net Assets

Temporarily restricted net assets are available for the support of various projects related to the Academy and its graduates or are restricted by time.

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

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Permanent endowment with no restrictions on the use of income	\$ 37,680,441	\$ 36,172,801
Permanent endowments with income restricted to the support of projects and programs related to the Academy and its graduates	<u>143,657,126</u>	<u>134,346,221</u>
Total	<u>\$ 181,337,567</u>	<u>\$ 170,519,022</u>

12. 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 temporarily restricted to permanently restricted.

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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.

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 Army West Point Athletic Association ("AWPAA") with the purpose to include the encouragement of the study of leadership and to enhance the image of the Academy. The Association recorded \$34,695,979 of grants to the Academy and AWPAA in 2017 (\$42,332,392 in 2016), related to educational and historical programs and support services. During 2016, the Association recorded a grant to the Academy of approximately \$22 million for the construction of the Visitors Center which was completed in 2017. During 2017, the Association recorded a grant to the Academy of approximately \$13 million for the construction of an athletic center which is expected to be completed in 2018.

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.

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

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

	<u>2017</u>	<u>2016</u>
Grants to the Academy	\$ 28,274,311	\$ 41,832,392
Grants to AWPAA	6,421,668	500,000
Salaries	7,790,570	7,478,532
Benefits	1,605,598	1,528,613
Professional services	571,266	642,567
Printing	281,160	224,116
Postage and shipping	529,105	468,844
Cost of goods sold	1,120,237	976,429
Employee travel	265,158	240,166
Awards and alumni events	310,252	257,757
Donor recognition expense	476,772	717,220
Donor acquisition	591,529	628,270
Office expenses	94,180	106,197
Building expenses	236,855	272,874
Depreciation	566,920	549,051
All other	903,794	667,895
	<u>\$ 50,039,375</u>	<u>\$ 57,090,923</u>

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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% 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 unrestricted or restricted for specific purposes, the Association uses a total return policy whereby a fixed percentage (4% for restricted and 4.5% for unrestricted) of the prior twelve quarters' fair 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.

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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. The unrestricted endowment net assets represent internally-designated amounts which are appropriated for expenditure in accordance with the Association's spending policy.

Changes in endowed net assets for the year ended December 31, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, end of year, December 31, 2016	\$ 10,412,302	\$ 45,971,351	\$ 170,519,022	\$ 226,902,675
Contributions	-	100,881	4,713,780	4,814,661
Return on investment	240,514	1,018,925	-	1,259,439
Realized and unrealized gain on investment	6,501,014	25,751,031	-	32,252,045
Transfers and other, net	-	(680,901)	6,104,765	5,423,864
Amount appropriated for expenditure	<u>(1,785,194)</u>	<u>(2,772,022)</u>	<u>-</u>	<u>(4,557,216)</u>
Endowment net assets, end of year, December 31, 2017	<u>\$ 15,368,636</u>	<u>\$ 69,389,265</u>	<u>\$ 181,337,567</u>	<u>\$ 266,095,468</u>

Changes in endowed net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, end of year, December 31, 2015	\$ 10,016,927	\$ 41,624,642	\$ 156,100,716	\$ 207,742,285
Contributions	-	62,106	8,249,393	8,311,499
Return on investment	118,774	465,859	-	584,633
Realized and unrealized gain on investment	2,034,901	7,734,259	-	9,769,160
Transfers and other, net	-	(697,159)	6,168,913	5,471,754
Amount appropriated for expenditure	<u>(1,758,300)</u>	<u>(3,218,356)</u>	<u>-</u>	<u>(4,976,656)</u>
Endowment net assets, end of year, December 31, 2016	<u>\$ 10,412,302</u>	<u>\$ 45,971,351</u>	<u>\$ 170,519,022</u>	<u>\$ 226,902,675</u>