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

Consolidated Financial Statements

December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
West Point Association of Graduates

Opinion

We have audited the consolidated 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 consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

New York, New York
May 8, 2023

Consolidated Statements of Financial Position
December 31, 2022 and 2021
(In Thousands)

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 1,826	$ 2,039
Restricted cash	5,529	5,626
Pledges receivable, net	9,755	14,305
Inventories and other assets	652	613
Investments	284,837	354,337
Total current assets	302,599	376,920
Pledges Receivable, Net	18,820	29,957
Investments	249,530	226,379
Split-Interest and Other Trusts	38,370	35,660
Investments Restricted by Agreements	4,863	6,073
Building and Equipment, Net	4,681	5,076
Total assets	$ 618,863	$ 680,065
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,970	$ 3,095
Proffer payable	8,661	8,390
Deferred revenue	84	132
Total current liabilities	12,715	11,617
Liabilities, Remainder Trusts	3,666	4,809
Deferred Obligations	2,908	3,082
Due to Classes	2,729	2,879
Deferred Compensation	634	761
Total liabilities	22,652	23,148
Net Assets		
Without donor restrictions	61,850	80,235
With donor restrictions	534,361	576,682
Total net assets	596,211	656,917
Total liabilities and net assets	$ 618,863	$ 680,065

See notes to financial statements

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

Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2022 and 2021
(In Thousands)

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Financial contributions	$ 780	$ 56,903	$ 57,683	$ 532	$ 93,723	$ 94,255
Nonfinancial contributions	2	1,116	1,118	-	325	325
Bequests	352	1,659	2,011	277	384	661
Royalties	712	5	717	657	7	664
Return on investments	5,686	(297)	5,389	6,343	4,604	10,947
Sales, gift shop	2,292	-	2,292	2,196	-	2,196
Subscriptions and advertising	163	-	163	331	-	331
Alumni activities	1,231	120	1,351	769	5	774
Other	116	106	222	180	1	181
Net Assets Released From Restriction						
Satisfaction of program restriction	38,149	(38,149)	-	26,658	(26,658)	-
Reimbursement for administrative and development expenses	6,303	(6,303)	-	5,225	(5,225)	-
Transfers, net	406	(406)	-	548	(548)	-
Total revenues and other support	56,192	14,754	70,946	43,716	66,618	110,334
Expenses						
Program services:						
Alumni services	5,475	-	5,475	4,408	-	4,408
Educational and historical	37,441	-	37,441	25,925	-	25,925
Communications and marketing	1,447	-	1,447	1,471	-	1,471
Provision for (recovery of) uncollectible pledges, net	-	(3,911)	(3,911)	-	9,016	9,016
Supporting services:						
Management and administration	5,156	-	5,156	5,007	-	5,007
Fundraising	8,169	-	8,169	7,232	-	7,232
Total expenses	57,688	(3,911)	53,777	44,043	9,016	53,059
Change in net assets before investment transactions	(1,496)	18,665	17,169	(327)	57,602	57,275
Net Realized and Unrealized (Losses) Gains on Investments	(16,889)	(60,986)	(77,875)	13,881	53,347	67,228
Change in net assets	(18,385)	(42,321)	(60,706)	13,554	110,949	124,503
Net Assets, Beginning	80,235	576,682	656,917	66,681	465,733	532,414
Net Assets, Ending	$ 61,850	$ 534,361	$ 596,211	$ 80,235	$ 576,682	$ 656,917

See notes to financial statements

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In Thousands)

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ (60,706)	$ 124,503
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions for donor restricted endowment funds	(16,430)	(9,778)
Net realized and unrealized loss (gain) on investments	77,875	(67,228)
Depreciation on building and equipment	822	814
Increase in value of trusts and investments restricted by agreements	(1,328)	(4,850)
Changes in:		
Pledges receivable	10,991	(20,312)
Inventories and other assets	(39)	(64)
Accounts payable, accrued expenses and deferred compensation	748	(60)
Proffer payable	271	5,959
Deferred obligations and revenue	(222)	(107)
Liabilities associated with remainder trusts	(1,143)	436
Due to classes	(150)	84
Net cash provided by operating activities	10,689	29,397
Cash Flows From Investing Activities		
Purchase of investments	(273,148)	(287,452)
Proceeds from sale and maturity of investments	241,622	252,255
Purchase of building improvements and equipment	(427)	(73)
Receipts from settlement of split-interest agreements	586	937
Purchase of investments restricted by agreements	(758)	(601)
Net cash used in investing activities	(32,125)	(34,934)
Cash Flows From Financing Activities		
Proceeds from contributions for donor restricted endowment funds	16,430	9,778
Changes in pledges restricted for long term investment	4,696	(5,385)
Net cash provided by financing activities	21,126	4,393
Net decrease in cash and cash equivalents and restricted cash	(310)	(1,144)
Cash, Cash Equivalents and Restricted Cash, Beginning	7,665	8,809
Cash, Cash Equivalents and Restricted Cash, Ending	$ 7,355	$ 7,665

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

	2022	2021
Cash and cash equivalents	$ 1,826	$ 2,039
Restricted cash	5,529	5,626
Total cash, cash equivalents and restricted cash	$ 7,355	$ 7,665

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 (IRC). However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under IRC rules and has been classified as an organization that is not a private foundation.

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

On March 8, 2022, the Association created the WPAOG-HVP Limited Liability Corporation (HVP LLC) with the Association as its sole member. The primary purpose of the HVP LLC is to assist the Academy in its effort to uplift neighboring communities where staff and faculty may reside by enhancing educational opportunities in the form of an after-school program.

In 2022, the Association also expanded the purpose of its existing LGL Real Estate Foundation LLC (LGL RE LLC), which was originally established in 2003, to permit the purchase of individual properties for investment. The Association is the sole member of LGL RE LLC.

The Association consolidates the WPA LLC, HVP LLC and LGL RE LLC and has eliminated all intercompany accounts and transactions of these entities, accordingly. Moreover, under applicable U.S. Treasury regulations, WPA LLC, HVP LLC, and LGL RE LLC are disregarded as separate entities for income tax purposes and are reported within the Association's *Federal Return of Organization Exempt From Income Tax*.

Basis of Accounting

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

Basis of Presentation

The Association follows accounting and reporting guidelines established by the Financial Accounting Standards Board (FASB). The Association records written unconditional promises to give (pledges) as receivables and revenue, and in addition, distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. The Association has established standards for financial reporting, including the classification of resources into two classes of net assets: without donor restrictions and with donor restrictions, based upon the absence or existence and nature of donor-imposed restrictions as follows:

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

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by passage of time. This includes endowment assets to be held in perpetuity for which the income earned can be used for specific donor-stipulated purposes.

Cash and Cash Equivalents

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

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

Restricted Cash

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

Promises to Give

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

Proffer Payable

Proffer payable represents unconditional promises to grant funds to the United States Military Academy that have been offered and accepted prior to year-end, but remain unpaid as of the consolidated statements of financial position date.

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

In 2022, the Association proffered to the Academy the renovation of a portion of its football stadium estimated in the amount of $107 million. The Association has secured the corresponding amount of funds both from donors and also in bank financing obtained by Army West Point Athletic Association (AWPAA) in order to complete the project at the proffered amount. Should the bidding process yield a project cost beyond the amount of secured funding, additional gift funds will be sought. It is expected that the proffer will be accepted in 2023, and the proffer payable recorded in 2023, accordingly.

Split-Interest and Other Trust Agreements

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

Inventories

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

Building and Equipment

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

Nonfinancial Contributions and Donated Securities

Donated nonfinancial contributions are reflected as contributions in the accompanying statements at their estimated fair value at date of donation if the Association has determined that they have the risks and rewards of ownership as well as the discretion over beneficiary distribution. When conditions for recognizing nonfinancial contributions are not met, the Association may be acting as an agent in passing a gift through to the Academy. Nonfinancial contributions received and reflected in the accompanying consolidated financial statements were $1,118 in 2022, consisting of $652 of books and publications, $382 of travel costs, and $84 of other items ($325 in 2021, consisting of $160 of travel costs, $114 of training items, and $51 of other items).

Donated marketable securities are recorded at their fair value at date of donation. Absent donor restrictions to the contrary, donated securities are sold immediately rather than held for investment. Contributions for the year ended December 31, 2022, include $28,641 of donated securities ($7,169 in 2021).

Investments

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

Due to Classes

The Association maintains commingled brokerage accounts consisting of cash and investments, on behalf of various graduated classes. These assets are recorded in the consolidated statements of financial position as investments, along with an offsetting liability. This liability is presented in the consolidated statements of financial position as due to classes in the amounts of $2,729 and $2,879 at December 31, 2022 and 2021, respectively.

Revenue With and Without Donor Restriction

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

Deferred Obligations

Deferred obligations consists primarily of obligations for payments relating to pooled life income funds and charitable gift annuities.

(In Thousands)

Tax Status and Expense

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

The income tax positions taken by the Association for any years open under the various statutes of limitations are that the Association continues to be exempt from income taxes and that the Association earns revenues from certain activities which are considered unrelated business taxable income under the IRC. In both 2022 and 2021, unrelated business income (net of applicable expenses) resulted in no material tax expense. The Association believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax expenses or benefits within 12 months of the reporting date. None of the Association's federal or state income tax returns are currently under examination by the Internal Revenue Service (IRS) or state authorities.

Use of Estimates

The preparation of consolidated 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 8, 2023, the date when the consolidated financial statements were available to be issued.

Accounting Standards Adopted in the Current Year

During 2022, the Association adopted Accounting Standards Update (ASU) No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The Association updated its line of credit agreement with its bank to eliminate LIBOR and replace with Secured Overnight Financing Rate as disclosed in Note 8.

During 2022, the Association adopted ASU No. 2020-07, N*ot-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets. The Association has adjusted the presentation to the consolidated financial statements accordingly. ASU No. 2020-07 has been applied retrospectively to all periods presented. As a result of ASU No. 2020-07, the consolidated statement of activities for the Association for the year ended December 31, 2021 was adjusted as follows:

	After Adoption of ASU No. 2020-07	As Originally Presented	Effect of Change
Financial contributions	$ 94,255	$ 94,580	$ (325)
Nonfinancial contributions	325	-	325

(In Thousands)

2. Liquidity and Availability

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

	2022	2021
Cash and cash equivalents	$ 1,826	$ 2,039
Pledges receivable, net	9,755	14,305
Investments	284,837	354,337
Total	$ 296,418	$ 370,681

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

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

Although the Association does not intend to spend from its unrestricted funds other than amounts appropriated for general expenditure pursuant to its annual budget process, additional amounts from unrestricted funds are available if necessary and if in compliance with endowment spending rules. The Association also has an unsecured credit line in the amount of $7 million to manage unanticipated liquidity needs, which, as of December 31, 2022 and 2021, had not been drawn upon.

(In Thousands)

3. Pledges Receivable

Pledges receivable are written unconditional promises to give. The Association recognizes potentially uncollectible pledges and provides an allowance for the estimated uncollectible amount. Pledges receivable, net of the discount to present value (at a risk adjusted rate of 4% in 2022 and 1.5% in 2021) and the allowance for uncollectible pledges, are as follows:

	December 31, 2022	December 31, 2021
Gross unconditional promises to give	$ 45,720	$ 62,527
Less allowance for uncollectible pledges	(12,319)	(16,230)
Less discounts to net present value	(4,826)	(2,035)
Net unconditional promises to give	$ 28,575	$ 44,262
Amounts due in:		
Less than one year, net of allowance	$ 9,755	$ 14,305
Amounts due in:		
One to five years, net of allowance and discount	$ 13,892	$ 20,160
More than five years, net of allowance and discount	1,742	1,946
	15,634	22,106
To be held in perpetuity, net of allowance and discount	3,186	7,851
	$ 18,820	$ 29,957

4. Investments

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

	December 31, 2022	December 31, 2021
Investments	$ 534,367	$ 580,716
Investments, pooled life income funds	885	1,362
Investments, gift annuities	3,978	4,711
Investments restricted by agreements	4,863	6,073
Total	$ 539,230	$ 586,789

(In Thousands)

Investments consist of the following:

	December 31, 2022	December 31, 2021
Short-term investments (money market and bond funds)	$ 26,572	$ 43,652
Fixed income funds	79,301	64,460
Equity securities	307,361	349,718
Alternative investments	118,823	109,511
Other	7,173	19,448
Total	$ 539,230	$ 586,789

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

	December 31, 2022	December 31, 2021
Without donor restrictions:		
Return on investments (interest and dividends)	$ 5,686	$ 6,343
Net realized gains on sale of investments	$ 1,071	$ 4,072
Net unrealized (losses) gains on investments	(17,960)	9,809
	$ (16,889)	$ 13,881
With donor restrictions:		
Return on investments (interest and dividends)	$ (297)	$ 4,604
Net realized gains on sale of investments	$ 5,843	$ 15,183
Net unrealized (losses) gains on investments	(66,829)	38,164
	$ (60,986)	$ 53,347

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

5. Fair Value Measurements

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

(In Thousands)

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

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

The following fair value hierarchy table sets forth the investment portfolio by level as of December 31, 2022 and 2021 where carrying value equals fair value (refer to Note 6 for split-interests and other trusts):

	2022			
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
Short-term investments	$ 26,428	$ 144	$ -	$ 26,572
Fixed income funds:				
Mortgage backed	11,283	-	-	11,283
Government funds	68,018	-	-	68,018
Equity funds:				
Domestic equity	44,665	-	-	44,665
International equity	97,239	-	-	97,239
Alternative investments:				
Fund of funds	-	-	1,086	1,086
Real estate funds	-	-	44	44
Other funds	7,173	-	-	7,173
Total assets in the fair value hierarchy	$ 254,806	$ 144	$ 1,130	256,080
Assets recorded at net asset value (a)				283,150
Assets at fair value				$ 539,230

(In Thousands)

	2021			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term investments	$ 43,544	$ 108	$ -	$ 43,652
Fixed income funds:				
Mortgage backed	11,228	-	-	11,228
Government funds	53,232	-	-	53,232
Equity funds:				
Domestic equity	37,884	-	-	37,884
International equity	104,362	-	-	104,362
Alternative investments:				
Fund of funds	-	-	1,509	1,509
Real estate funds	-	-	44	44
Other funds	19,448	-	-	19,448
Total assets in the fair value hierarchy	$ 269,698	$ 108	$ 1,553	271,359
Assets recorded at net asset value (a)				315,430
Assets at fair value				$ 586,789

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

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

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

- Fixed income, equity funds and other funds classified as active market Level 1 are valued at the last sales price on the date of valuation or, if no sale occurred on such date, at the last bid price thereon.

- Fund of funds and real estate funds classified as Level 3 include private capital securities that are generally valued according to the mark-to-market method which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations or the income approach, in which market expectations of future cash flows or earnings are converted to a present value. However, in some instances, it may be most appropriate to value an investment at cost, if little has changed since the initial investment in the company. This valuation process is often used in the early years of investments in a private company, and in these instances cost is reflective of fair value.

(In Thousands)

- The Association has entered into several agreements with Commonfund, a nonprofit investment manager, to invest in various partnerships. Two of these agreements contain provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreements amounts to $5,000 and the total amount of capital contributed to the partnerships by the Association as of December 31, 2022 was $4,926. This investment is included in alternative investments as Level 3 in the fair value table. As capital calls are received, other investments are sold and the proceeds and available cash are used to fulfill the capital call. The Association has also entered into an agreement with AEW Capital Management, LP, to invest in a real estate investment trust. This agreement contains provisions for capital calls by the general partner up to specified amounts. Total capital committed under the agreement amounts to $3,000, and the total amount of capital contributed by the Association as of December 31, 2022 was $2,721. The Association was released from its remaining commitment of $279. In accordance with these agreements, the redemption period for these funds range from seven to ten 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 purchases and sales of investments measured using Level 3 inputs for the year ended December 31:

	2022		
	Fund of Funds	Real Estate Funds	Total
Purchases	$ 7	$ 1,564	$ 1,571
Sales	(347)	(283)	(630)

	2021		
	Fund of Funds	Real Estate Funds	Total
Purchases	$ -	$ 1,968	$ 1,968
Sales	(447)	(715)	(1,162)

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

(In Thousands)

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, 2022 and 2021:

	2022			
	Fair Value	Unfunded Commitments	Remaining Life	Redemption Restriction/Terms
Domestic equity funds	$ 140,089	N/A	N/A	N/A
International equity funds	25,368	N/A	N/A	N/A
Private equity: Drawdown partnerships (a)	67,722	$ 17,379	1 to 10 years	Redemptions not permitted
Long/short equity funds	42,018	N/A	N/A	Quarterly or Annual with notice period from 45-65 days
Real estate: Drawdown partnerships (a)	7,953	12,723	1 to 10 years	Redemptions not permitted
Total	$ 283,150	$ 30,102		

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

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

6. Split-Interest Trusts, Other Trusts and Investments Restricted by Agreements

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

Irrevocable Trusts and Others

Donors have established irrevocable trusts held by third party trustees. The trusts consist of various investment portfolios. Pursuant to the respective trust agreements, the donor's designated beneficiary is entitled to the income earned on the trust during the beneficiary's lifetime, and upon death the assets in the trust will be available to the Association. The present value of the estimated amount to be received was calculated using a risk adjusted discount rate (approximately 3%) and the applicable mortality table.

Remainder Trusts

Donors have established charitable remainder trusts naming the Association as the trustee. Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms (usually the designated beneficiary's lifetime). At the end of each trust's term, the remaining assets are available for the Association's use, subject to the donor-imposed restrictions. Assets held in charitable remainder trusts totaled $6,455 at December 31, 2022 ($8,299 in 2021) and are recorded at estimated realizable value. On an annual basis the Association revalues the respective liabilities to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($3,666 and $4,809 at December 31, 2022 and 2021, 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 $14,591 at December 31, 2022 ($16,998 at 2021).

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 $340 at December 31, 2022 ($572 in 2021).

(In Thousands)

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, 2022, deferred obligations associated with gift annuities approximated $2,568 ($2,510 in 2021).

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, 2022 and 2021, the Association was in full compliance with reserve requirements under the applicable insurance law.

The changes in split-interest and other trusts for 2022 and 2021 were as follows:

	Split-Interest and Other Trusts			
	Irrevocable and Other Trusts	Remainder Trusts	Perpetual Trust	Total Split-Interest and Other Trusts
Balance, December 31, 2020	$ 7,569	$ 22,796	$ 1,029	$ 31,394
Contributions	2,413	455	-	2,868
Cash realized	(796)	(89)	(52)	(937)
Change in value	110	2,135	90	2,335
Balance at December 31, 2021	9,296	25,297	1,067	35,660
Contributions	7,043	208	-	7,251
Cash realized	(333)	(200)	(53)	(586)
Change in value	456	(4,259)	(152)	(3,955)
Balance, December 31, 2022	$ 16,462	$ 21,046	$ 862	$ 38,370

The changes in investments restricted by agreements for 2022 and 2021 were as follows:

	Investments Restricted by Agreements		
	Pooled Life Income Funds	Gift Annuities	Total Investments Restricted by Agreements
Balance, December 31, 2020	$ 1,388	$ 4,437	$ 5,825
Contributions	-	146	146
Cash realized	-	(35)	(35)
Change in value	(26)	163	137
Balance, December 31, 2021	1,362	4,711	6,073
Contributions	-	550	550
Cash realized	(273)	(310)	(583)
Change in value	(204)	(973)	(1,177)
Balance, December 31, 2022	$ 885	$ 3,978	$ 4,863

(In Thousands)

7. Building and Equipment

A summary of building and equipment is as follows:

	December 31, 2022	December 31, 2021
Buildings and improvements	$ 11,719	$ 11,406
Computer equipment and software	2,003	2,003
Furniture and fixtures	996	996
Equipment	426	335
Vehicles	43	20
	15,187	14,760
Less accumulated depreciation	10,506	9,684
Total	$ 4,681	$ 5,076

Depreciation expense was $822 and $814 for the years ended December 31, 2022 and 2021, respectively.

8. Line of Credit

The Association has a $7 million line of credit with a bank. This line was originally established under an agreement dated July 25, 2018. The interest rate option was re-stated in 2022 and will be charged at the Secured Overnight Financing Rate (SOFR) plus 1.50% or Prime minus 1.25%. The line is due on demand and has no expiration. There was no outstanding balance on this line at December 31, 2022 and 2021.

The Association did not draw on the line during 2022 or 2021 and thus incurred no related interest expense for the years ended December 31, 2022 and 2021.

9. Deferred Compensation

The Association has arrangements with its executive officers whereby specified amounts of their compensation are deferred. These amounts are invested on behalf of the executives and are payable upon their retirement. At December 31, the Association's investments and obligation pursuant to these arrangements was:

	2022	2021
Investments, long-term	$ 634	$ 761
Deferred compensation liability	$ (634)	$ (761)

(In Thousands)

10. Defined Contribution Plan

The Association sponsors a defined contribution retirement plan under Section 403(b) of the IRC that allows for contributions by employees as well as the Association. Substantially all employees are eligible to participate in this plan. The Association's contributions to the plan are based on a percentage of the employee's elective contribution and totaled $536 for the year ended December 31, 2022 ($510 for 2021).

11. 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.

12. Net Assets With Restrictions

As of December 31, 2022 and 2021, net assets with donor restrictions totaling $269,291 and $332,565, respectively, are available for the support of various projects related to the Academy and its graduates or are restricted by time.

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

	December 31, 2022	December 31, 2021
Endowment with no restrictions on the use of income	$ 45,709	$ 41,390
Endowments with income restricted to the support of projects and programs related to the Academy and its graduates	219,361	202,727
Total	$ 265,070	$ 244,117

13. Transfers

Transfers are made among the net asset classes to reclassify previously recognized revenue that has been re-allocated in the current year by the donor based upon the occurrence of certain events or the determination that a transfer is needed to reflect the donors' intent for the contribution. The Association ensures donors' consent before making net asset transfers to and from net assets with donor restrictions.

14. Description of Program and Supporting Services

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

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

Educational and Historical - Provides gift funds and assets to the Academy and AWPAA for the purpose of encouraging the study of leadership and to enhance the image of the Academy. The Association recorded $37,334 of grants to the Academy and AWPAA in 2022 ($25,825 in 2021), related to educational and historical programs and support services.

(In Thousands)

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

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

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

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

	2022					
	Alumni Services	Educational and Historical	Communications and Marketing	Management and Administration	Fundraising	Total Expenses
Grants to the Academy	$ -	$ 30,014	$ -	$ -	$ -	$ 30,014
Grants to AWPAA	-	7,320	-	-	-	7,320
Salaries	2,236	80	805	2,343	5,003	10,467
Benefits	459	18	176	456	1,110	2,219
Professional services	156	1	109	691	246	1,203
Printing	26	-	162	9	75	272
Postage and shipping	159	-	123	4	236	522
Cost of goods sold	1,230	-	-	-	-	1,230
Employee travel	97	1	8	145	35	286
Awards and alumni events	439	1	-	116	22	578
Donor recognition	-	-	-	24	472	496
Donor acquisition	-	-	-	-	239	239
Office expenses	93	-	5	16	29	143
Building expenses	104	3	26	26	144	303
Depreciation	24	1	6	762	29	822
All other	452	2	27	564	529	1,574
Total	$ 5,475	$ 37,441	$ 1,447	$ 5,156	$ 8,169	$ 57,688

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

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 five years, creates a rebuttal presumption of imprudence. The Act also requires written notification to all existing endowment donors allowing them to indicate whether or not they will allow the endowment to be spent below the original gift amount.

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

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

In addition, it is the Association's current policy to recognize the historic dollar value of all endowment funds and not spend any portion of the corpus. The Association classifies as net assets held in perpetuity (a) the original value of gifts donated to the endowment and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in net assets to be held in perpetuity was $86,666 and $139,739 as of December 31, 2022 and 2021, respectively.

(In Thousands)

These amounts are classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Association in a manner consistent with the Act. The endowment net assets without donor restriction represent internally-designated amounts which are appropriated for expenditure in accordance with the Association's spending policy.

From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law. At December 31, 2022, forty donor-restricted endowments with original gift values of $18,955, fair values of $17,660 and deficiencies of $1,295 were reported in net assets with donor restrictions. These are considered to be "underwater" endowments. No distributions are made from any endowments while underwater. The Association had no underwater endowments as of December 31, 2021.

Changes in endowed net assets for the years ended December 31, 2022 and 2021, are as follows:

	2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, end of year December 31, 2021	$ 27,580	$ 383,855	$ 411,435
Contributions	-	12,195	12,195
Return on investment	(112)	(465)	(577)
Realized and unrealized loss on investment	(9,150)	(47,636)	(56,786)
Transfers and other, net	-	9,367	9,367
Amount appropriated for expenditure	(2,227)	(5,580)	(7,807)
Endowment net assets, end of year December 31, 2022	$ 16,091	$ 351,736	$ 367,827

	2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, end of year December 31, 2020	$ 20,183	$ 319,446	$ 339,629
Contributions	-	18,800	18,800
Return on investment	718	3,521	4,239
Realized and unrealized gain on investment	8,758	41,070	49,828
Transfers and other, net	-	4,467	4,467
Amount appropriated for expenditure	(2,079)	(3,449)	(5,528)
Endowment net assets, end of year December 31, 2021	$ 27,580	$ 383,855	$ 411,435