

The United States Naval Academy Alumni Association and
United States Naval Academy Foundation



Steady on Course

2009 ANNUAL REPORT



A Message from the Chairmen

Even in the most difficult economic times, the United States Naval Academy Alumni Association and Foundation are committed to supporting the Naval Academy and serving Academy alumni. Although 2009 was the most challenging financial year to date, the Alumni Association and Foundation remain *Steady on Course*, determined to weather the rough waters without losing sight of our mission.

Due to the largest economic downturn in recent history, gift receipts were down significantly, as we predicted in last year's annual report. We anticipate 2010 will also be a challenging year, but there are plans in place to minimize losses and make the most of future investments.

A tremendous thank you goes to our alumni, so many of whom stepped up their support to sustain us. They have also been instrumental in connecting us to friends of the Academy—parents, private citizens and corporations. The fact that so many see the Naval Academy as a national treasure worth supporting is humbling as well as encouraging.

We are a family, dedicated to taking care of our own. Though we may weather another year or two of stormy seas, we have no doubt better days are ahead for the Naval Academy as well as for the Alumni Association and Foundation.

We thank you for the support you have given to keep the Naval Academy, the Alumni Association, and the Foundation *Steady on Course*.



Admiral Steve Abbot '66, USN (Ret.)
Chairman, Board of Trustees
United States Naval Academy Alumni Association, Inc.

Admiral Charles R. Larson '58, USN (Ret.)
Chairman, Board of Directors
United States Naval Academy Foundation, Inc.

A Message from the President and CEO

Fiscal year 2009 was filled with both challenges and victories. The economic climate in the nation caused many unforeseen difficulties, yet we saw increases in class gifts, alumni participation and corporate donors. Our strategy was to plan for the worst and hope for the best. We tightened our belt to help mitigate investment losses, and we worked to anticipate other circumstances we might face. We remain cohesive and strong, in large part because our alumni, parents and friends continue to support and sustain us.

I am grateful to have a close working partnership with Superintendent Vice Admiral Jeffrey L. Fowler '78, USN, and his leadership team. Together, we worked to make difficult decisions and adjust to our circumstances; our partnership has played a significant role in our ability to stay *Steady on Course*. Through letters, e-mail and publications, both the Superintendent and I are committed to keeping you informed of our progress.

For 2009, support to the Naval Academy totaled over \$11 million, which was used to support the Academy in critical areas designated by Admiral Fowler and his team. Despite the downturn in overall giving, we were able to sustain a strong year in Annual Fund gifts. Additionally, there was an increase in the number of corporations providing philanthropic support to the Academy. The Class of 2009 was particularly generous in the First Gift program, surpassing the Class of 2008 numbers in both dollars and percentage of participation. We hope these positive notes are signs that we will weather the financial storm going forward with continued support from our alumni.

Alumni Association membership is now 53,591 strong, an increase of 550 members. The Naval Academy is supported by 2,189 Blue & Gold Officers, 75 active graduated class organizations, 100 affiliated and sanctioned chapters worldwide, and 84 national parents clubs.

This year, we added five alumni to the list of those receiving the U.S. Naval Academy Alumni Association Distinguished Graduate Award. Now in its 11th year, the award honors living graduates for demonstrating a commitment to a lifetime of service to the Navy, Marine Corps and the nation.

While working to sustain financial stability, we also took steps to move the Alumni Association and Foundation forward. A comprehensive membership survey gave us feedback on our programs and services, helping us prioritize and align our resources. We augmented and improved our communications efforts by increasing the frequency of *WaveTops*, our online newsletter, and by beginning an eight issue schedule of *Shipmate* while complementing the magazine's content with online assets to include video. We hope these efforts will spark new alumni networks and engage alumni in creative new ways.

For now, we remain *Steady on Course* thanks to the unwavering commitment of those who believe in our profoundly important and enduring mission. As always, we are deeply grateful for the generosity of our alumni, parents and friends.



Byron Marchant '78
President and CEO

Steady on Course

2009 ANNUAL REPORT:

The Naval Academy Foundation supports, promotes and advances the mission of the Naval Academy by raising private gifts to provide a margin of excellence to the Academy. The Alumni Association serves and supports the nation, the naval service, the Academy and its alumni through a variety of services and activities that attract qualified men and women to the Brigade of Midshipmen and bind alumni together in support of the highest ideals of command, citizenship and government.

Even in the toughest of financial times, these missions remain our guiding lights to keep us *Steady on Course*. Private support, during fiscal year 2009 and every year, is key to making headway in uncharted waters and sustaining the Alumni Association, the Foundation and the Naval Academy for the sake of the Brigade of Midshipmen and, ultimately, the nation.

Federal appropriations fund the Academy's core program components, but private funds provide the "margin of excellence," a broad spectrum of programs, facilities and activities that make the United States Naval Academy one of the world's premier academic and leadership institutions. The



margin of excellence provides athletic programs, study abroad opportunities and many other initiatives to help the Academy better prepare midshipmen to become leaders of the nation—in the military, in government and in the private sector. Private gifts do not supplant the funding that comes from taxpayer dollars. Instead, they enhance the experience of midshipmen and help attract exceptional young men and women to the Academy.

**To secure the future,
several Alumni Association
and Foundation leaders
are embarking on a
strategic planning process
that will determine
priorities through 2020.**



Funding priorities for fiscal year 2009 included the Annual and Parents Funds, the Academic Center, Admissions Excellence, International Programs, the Athletic Excellence Fund, and several other programs and facilities. The Foundation's ability to fund these priorities was severely diminished not only by the national economic downturn but also by the loss of a major pledge.

To secure the future, several Alumni Association and Foundation leaders are embarking on a strategic planning process that will determine priorities through 2020. Maintaining the link between the Academy's strategic priorities and those initiatives for which the Foundation solicits private gifts will remain critically important to the Foundation's ongoing success.

Though fiscal year 2009 was marked by unprecedented financial challenges for the Alumni Association and Foundation, and consequently the Naval Academy, the year was also marked by signs that the organizations will successfully emerge from the economic turmoil.

The Annual Fund, for example, which asks alumni and friends of the Academy to make a yearly unrestricted contribution to meet both immediate and emerging needs of the Brigade of Midshipmen, was a tremendous bright spot for the year. Alumni participation reached near record numbers, indicating that connections to the Academy and the willingness of people to continue their commitment despite their own economic woes remain strong.

Parents are a success story as well. Nearly 2,100 made new charitable commitments, continuing their long streak of outstanding support by giving close to \$850,000 during this fiscal year. Fifty new donors joined the President's Circle, bringing the total number of parents in the Foundation's premier leadership giving society to 350.

The First Gift program, run by class officers and initiated in 2008 by the Foundation's Development division to engage younger alumni, was even more successful in 2009 than in its founding year. More than 67 percent of the graduating class pledged support over a five year period,



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There are several additional bright spots to note. First, an impressive \$9 million in aggregate support came to the Academy due to six Academy classes' embarking on new projects. There was also unprecedented success in corporate and foundation support for both minority admissions outreach and international programs. Several outright gifts and bequests in the \$50,000 to \$100,000 range were realized in spite of the fact that many donors are reluctant to make multi-year commitments until the economic uncertainty eases.

SUPPORTING THE MARGIN OF EXCELLENCE

While the Brigade Sports Complex, a major athletic facility funded by private gifts, was the highlight of the previous year, fiscal year 2009 saw the completion of two smaller but very important facilities projects.

The Alumni Association completed a \$2 million enhancement to its nearly 270-year-old Ogle Hall, a historic landmark situated in the heart of downtown Annapolis. Constructed in 1739, Ogle Hall is believed to be the oldest continuously occupied home in the region. The building has been home to three Maryland State governors and survived two fires prior to its purchase by the U.S. Naval Academy Alumni Association in 1944. Ogle Hall, also known as Alumni House, serves as both headquarters to the Alumni Association and as a central meeting place for alumni. The building is the venue for about 100 special events each year.

With the gift support of several Academy classes, the Naval Academy Museum in Preble Hall opened in August 2009. The museum is the official repository for all U.S. Navy trophy flags; the pride of the collection is Commodore Oliver Hazard Perry's *Dont Give Up the Ship* flag, one of the most significant flags in U.S. history.

Several margin-of-excellence programs received support for continued operation during fiscal year 2009. The Semester Abroad Program, for example, launched in 2005 to increase foreign language proficiency and regional knowledge through cultural immersion, sent 30 students to 10 countries. Midshipmen studied at both military academies and civilian universities including the Chilean and Spanish Naval Academies, the American University in Cairo, St. Petersburg State University, Capital Normal University in Beijing



and several others. Additionally, philanthropic donations supported midshipmen travel to Cambodia, Japan, Malaysia, Vietnam and Peru.

More than 160 midshipmen participated in four- to six-week foreign language programs and other cultural opportunities to more than 16 countries during academic breaks in the spring and summer of 2009. Many midshipmen also participated in professional training onboard foreign naval vessels including those from Australia, Brazil, Chile, France, Japan, Thailand, Turkey and Spain.

The Naval Academy's summer STEM—science, technology, engineering and mathematics—Camp Program was funded by several major U.S. corporations including Boeing, Raytheon, Northrop Grumman, Vectronix and the David Robinson Foundation. The program introduces middle school students and high school freshmen to these critically important academic focus areas. The Academy received 853 applications for the 2009 program and ultimately selected 206 students from across the country. The primary goal of the STEM Camp Program is to encourage and motivate students to enroll in additional math and science courses while they are in high school so they will be better prepared to pursue these subjects at the college level.

Continued support for the Athletic Excellence Fund, administered by the Athletic & Scholarship Programs (A&SP) Division of the Foundation and supported by private contributions, the Academy continues to be competitive throughout NCAA Division I athletics programs and at the club sport level. Women's sports directly benefited from



CASE selected the United States Naval Academy Foundation as one of 67 winners of the 2008 CASE-WealthEngine Awards for Educational Fundraising, honoring superior fundraising programs across the country.

the Fund for Athletic Excellence, especially the women's basketball team, for whom non-conference schedule travel, office renovations, and improved technology to enhance recruiting and game analysis were made possible. The Fund benefits athletics in much the same way the Naval Academy Annual Fund benefits the whole Academy—providing a means for the Athletic Director to supplement funding for critical athletic needs.

The A&SP Division also reported a strong year in prep school candidate recruitment. Sixty-four students entered the class of 2013, including 55 men and nine women, 17 of whom are minority students and 22 of whom are recruited athletes. Sixty-two sponsored students—including 47 men

and 15 women (25 minority students and 22 recruited athletes)—entered various prep schools in August.

In a special ceremony before the entire Brigade of Midshipmen, Superintendent Vice Admiral Jeffrey L. Fowler '78, USN, and Admiral Carlisle A. H. Trost '53, USN (Ret.), chairman of the Board of Trustees of the U.S. Naval Academy Alumni Association, recognized and honored five Naval Academy graduates for lifelong achievement with the United States Naval Academy Alumni Association Distinguished Graduate Award. The 2009 recipients were Mr. John E. Nolan '50; Admiral Bruce DeMars '57, USN (Ret.); Mr. J. Ronald Terwilliger '63; Admiral Joseph W. Prueher '64, USN (Ret.); and General Peter Pace '67, USMC (Ret.).



Another testament to excellence came in the form of a fundraising award from CASE, the Council for the Advancement and Support of Education. CASE selected the United States Naval Academy Foundation as one of 67 winners of the 2008 CASE-WealthEngine Awards for Educational Fundraising, honoring superior fundraising programs across the country.

Though fiscal year 2009 was a financially challenging year, it was filled with successes due to the generosity of those who believe in the potential of the Brigade of Midshipmen. Each year brings with it new obstacles and new triumphs. With the continued commitment of those who understand how desperately the world needs leaders of character, the Alumni Association and Foundation will make headway toward calmer seas, remaining *Steady on Course* while pursuing our common missions of support.

A Message from the Chief Financial Officer

As the Chief Financial Officer and Treasurer of the Alumni Association and Foundation, I am pleased to provide a true and accurate picture of the financial condition of both organizations.

While Fiscal Year 2009 began with a strong balance sheet and operating reserves, the financial health of both organizations declined as the nation dealt with the severe impact of the economic downturn. Investment performance was down 17 percent for the fiscal year, and we also lost a large pledge due to extenuating circumstances.

Our total support to the Naval Academy for FY09 was \$11 million, down considerably from the previous year but reflecting a smaller facilities need in the Yard and reduced unrestricted support. Accordingly, we have taken significant steps to make up for the deficit, decrease the budget, and cut costs wherever possible.

The consolidated financial statements in this report accurately reflect the organization’s financial position, results of operations, and workflows. The financial information is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The financial statements in this document are the complete set presented to our auditors. I have reviewed them, and to the best of my knowledge, they contain no untrue material statements nor do they omit any material facts.

Independent auditor McGladrey and Pullen, LLP audited our financial statements and expressed an unqualified opinion thereon. The auditor considered our internal controls to the extent they believe necessary to determine and conduct the audit to render an opinion. They found no significant deficiencies or material weaknesses during their audit, and there were no adjustments made. Our internal controls ensure transactions are authorized, executed and recorded properly.

The Joint Finance and Audit Committee of the respective boards—nine members who are neither officers nor employees of the Alumni Association or Foundation—meets quarterly with management to ensure the management team fulfills its responsibility for accounting controls and preparation of the financial statements and related data.

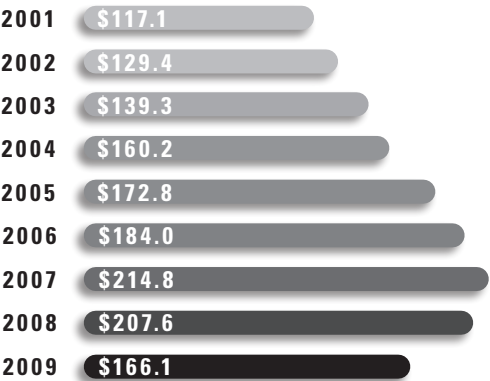
We are grateful to those who continue to support our mission, and we remain committed to operating with the utmost financial integrity.



Henry J. Sanford
Chief Financial Officer and Treasurer

Assets:

ASSETS (IN MILLIONS)



Liabilities:

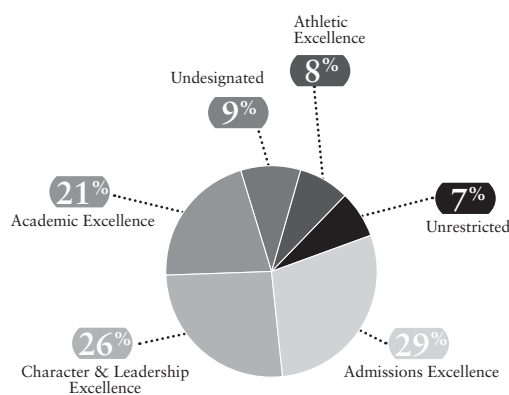
LIABILITIES/NET ASSETS (IN MILLIONS)



FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2009

SUPPORT TO USNA \$M

Admissions Excellence	\$3.24
Character & Leadership Excellence	2.90
Academic Excellence	2.40
Undesignated	0.97
Athletic Excellence	0.87
Unrestricted	0.83
Total support to USNA	\$11.21



Support to Naval Academy 2009

REVENUE \$M

Contributions	\$24.64
Investment income (loss)	(23.85)
Fund administration fee	1.16
Membership and merchandise sales	0.62
Royalties	0.48
Other	0.67
Total support and revenue	\$3.72

EXPENSES \$M**Program Services:**

Support to Naval Academy	\$11.21
Alumni publications	1.26
Member support	2.10
Partnership marketing	0.61
Alumni communications	0.97
Career transitions	0.74
Total program services	\$16.89

Support Services:

Development	\$23.34*
General & administrative	1.84
Total support services	\$25.18
Total expenses	\$42.07

**Pledges totaling \$19,183,802 were written off in fiscal year ending June 30, 2009. Bad debt expense is included in Development expense and reported in the year the pledge became uncollectible.*



Financial Highlights

Revenue and gains \$M	2003	2004	2005	2006	2007	2008	2009
Contributions	\$29.86	\$41.14	\$28.29	\$29.71	\$34.47	\$30.41	\$24.64
Investment income (loss)	1.36	9.88	8.14	10.71	22.42	(0.74)	(23.85)
Fund administration fee	1.17	1.17	0.91	1.06	1.31	1.26	1.16
Membership and merchandise sales	0.68	0.58	0.59	0.60	0.67	0.59	0.62
Other	0.09	2.59	1.33	1.39	2.10	0.51	1.15
Total Revenue and Gains	\$33.16	\$55.36	\$39.26	\$43.47	\$60.97	\$32.03	\$3.72

Expenses \$M

PROGRAMS:

Support to Naval Academy	\$20.99	\$29.24	\$17.89	\$15.07	\$21.20	\$29.88	\$11.21
Alumni publications	1.05	1.52	1.31	1.27	1.29	1.42	1.26
Member support	1.22	2.01	2.02	2.09	2.05	2.16	2.10
Partnership marketing	0.42	0.46	0.43	0.47	0.55	0.58	0.61
Alumni communications	0.57	0.42	0.75	0.74	0.84	0.87	0.97
Career transitions	0.40	0.53	0.52	0.61	0.64	0.71	0.74
<i>Total program expenses</i>	<i>\$24.65</i>	<i>\$34.18</i>	<i>\$22.92</i>	<i>\$20.25</i>	<i>\$26.57</i>	<i>\$35.62</i>	<i>\$16.89</i>

SUPPORT SERVICES:

Development	\$4.99	\$4.82	\$4.60	\$5.65	\$5.29	\$6.74	\$23.34*
General & administrative	2.19	1.66	1.39	1.65	1.67	1.95	1.84
<i>Total support expense</i>	<i>\$7.18</i>	<i>\$6.48</i>	<i>\$5.99</i>	<i>\$7.30</i>	<i>\$6.96</i>	<i>\$8.69</i>	<i>\$25.18</i>

Total Expenses	\$31.83	\$40.66	\$28.91	\$27.55	\$33.53	\$44.31	\$42.07
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*Pledges totaling \$19,183,802 were written off in fiscal year ending June 30, 2009. Bad debt expense is included in Development expense and reported in the year the pledge became uncollectible.



Investment Portfolio Review

OVERVIEW

As was the case for many organizations, FY2009 (July 1, 2008 – June 30, 2009) was a turbulent year for the Associations. The financial crack-up had a significant impact on investment revenue as well as on total portfolio value. Due to the severe economic downturn experienced during the year, our total investment value declined by \$28.4M (-18.5%) from \$153.3M to \$124.9M. \$23.9M of this decrease was attributed to net investment losses for FY2009 compared to losses of \$738K for FY2008. Net distributions from the investment portfolio during FY2009 amounted approximately to \$4.3M, which were used for program funding at the Naval Academy and for the Associations' operations. The short-fall in the investment revenue profoundly affected the Associations' budget decisions and led to implementation of major cost-reducing measures organization-wide.

Nevertheless, as described in detail in the following sections, both of the Associations' major portfolios, the core portfolio and the planned giving portfolio outperformed commonly used benchmarks. The volatile environment caused us to reflect once again on our overall investment policy and strategies. We came to the conclusion that our portfolios were appropriately positioned to achieve our objectives over the long-term.

Shown in the accompanying chart is the value of all investments since the amalgamation on 12/31/1999.

The objective and structure of our investments have remained the same with the core, planned gifts, and special investments constituting the investment assets as shown in Chart 2.

CORE PORTFOLIO

The *Core Portfolio*, a pooled fund representing approximately 78% of the Associations' invested funds, continues to be managed by *The Investment Fund for Foundations (TIFF)*.

Due to the unprecedented economic downturn experienced during fiscal year 2009 (1 July 2008 – 30 June 2009), annual performance for the core portfolio was -17.17%, net of all fees. While the investment loss brought significant challenges for the Associations, and particularly impacted our endowment funds, we believe the portfolio is appropriately positioned to achieve our objectives over the long-term. The Wilshire Trust Universe Comparison Services (TUCS), one of the most widely accepted benchmarks for the performance of institutional assets, indicated that the median performance for foundations and endowments of our size was -19.14% for the same period. The trend in general economic environment and financial market since mid March 2009 has been positive.

Table 1 (see next page) shows core portfolio returns for the last ten years.

The core portfolio's asset allocation as of June 30, 2008 and June 30, 2009, as well as the target policy portfolio, are provided in Table 2. Even though the Associations elected not to make additional commitments to private investments during FY2009, we continued to fund capital calls made by existing private investment

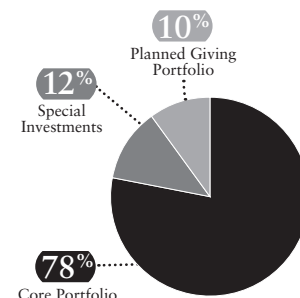
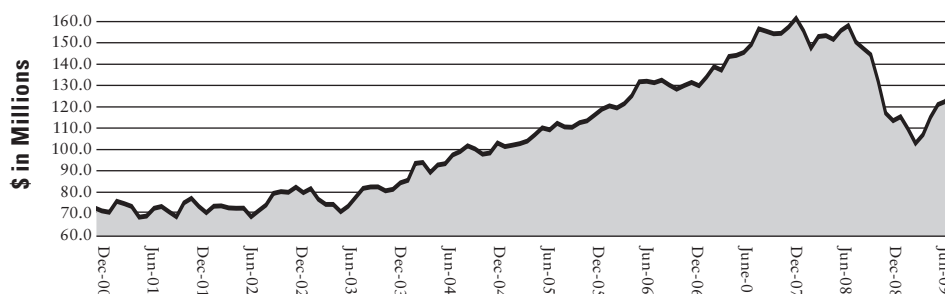


CHART 2 – Investment Portfolios

CHART 1 – Value of All Investments (12/1999–6/2009)



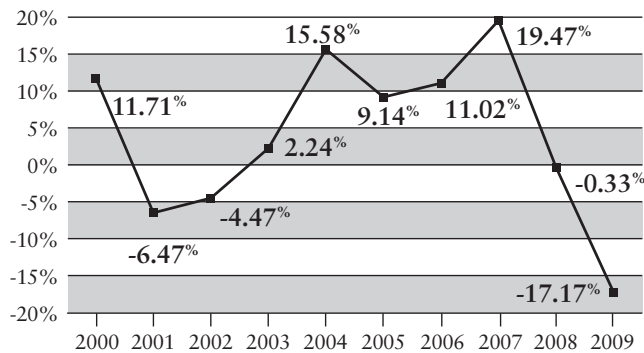


Table 1 – Core Portfolio Returns for Fiscal Years 2000-2009

funds. The total funding to these capital calls during FY2009 amounted to \$3.6M. As noted in previous reports, it will take several years to become fully invested within private investments. Until the private investment allocations are fully implemented, the core portfolio's asset allocation will, by design, reflect an overweighting to marketable investments and an underweighting to private investments.

PLANNED GIFT PORTFOLIO

The planned gift portfolio consists of charitable trusts assets, charitable gift annuity investment accounts and a pooled income fund. SunTrust Bank continues to manage this portfolio that represented about 10% of the investments. The planned gift portfolio had a total return of -9.8% for the fiscal year. Each of the individual accounts in the portfolio has its own tailored asset allocation established according to the parameters of the particular account and distributions are made on a regular basis to beneficiaries.

SPECIAL INVESTMENTS

The special investment portfolio consists of twenty-nine stand alone investments that do not fit within the core or planned gift portfolios. At fiscal year end, this portfolio made up 12% of all investments. There is a large variation in the types of investments and objectives of these various accounts within the special investment program.

	6/30/2008 Actual	6/30/2009 Actual	Policy Portfolio Target
Total Return Assets			
Global Stocks	47.8%	42.3%	32%
Private Equity	4.6%	6.2%	20%
Absolute Return	25.1%	19.1%	19%
High Yield Bonds	1.2%	4.8%	2%
Inflation Hedges			
Resource-Related Stocks	4.8%	6.5%	4%
Marketable Real Estate (REITs)	1.2%	2.7%	2%
Commodities	3.1%	3.0%	2%
Private Realty and Resources	0.5%	1.5%	10%
Deflation Hedges			
Conventional Bonds	2.3%	0.0%	3%
All-Purpose Hedges			
Inflation-Linked Bonds	7.7%	11.2%	6%
Cash Equivalents	1.7%	2.7%	0%
Total	100%	100%	100%

Table 2 – Core and Policy Portfolio Asset Allocation

SUMMARY

While the economic condition during FY2009 adversely impacted our investments and posed formidable challenges, we weathered another trying year and once again outperformed the benchmarks. Uncertainty continues to exist for the coming years, however, we believe that adherence to sound long-term investment policies remains the best approach to achieve our objectives.

SUBSEQUENT EVENTS

We generally do not look past the end of the fiscal year in these reviews. However, the recovery experienced in the Associations' portfolio since June 30, 2009 is significant enough to warrant brief mention here. From June 30, 2009 to November 9, 2009, our core portfolio increased in value by about 15%. This increase mitigates, however does not eliminate, the investment losses noted above.

Consolidated Financial Report

JUNE 30, 2009

**The United States Naval Academy Alumni Association, Inc.
and United States Naval Academy Foundation, Inc.**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees

The United States Naval Academy Alumni Association, Inc.

To the Board of Directors

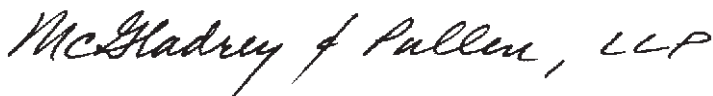
United States Naval Academy Foundation, Inc.

Annapolis, Maryland

We have audited the accompanying consolidated statements of financial position of The United States Naval Academy Alumni Association, Inc. (the Alumni Association) and the United States Naval Academy Foundation, Inc. (the Foundation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Alumni Association's and the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Alumni Association and the Foundation as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Timonium, Maryland

October 8, 2009

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2009 And 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 2,973,114	\$ 1,886,925
Accounts receivable and other current assets	641,361	536,551
Contributions receivable, net (Note 2)	28,052,137	42,756,853
Investments (Notes 3 and 4)	124,924,022	153,278,269
Property and equipment, net (Note 6)	6,936,935	6,054,561
Interest in third party trusts	2,566,704	3,122,740
Total assets	\$ 166,094,273	\$ 207,635,899
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,304,608	\$ 2,119,338
Deposits on life memberships (Note 7)	551,943	589,408
Class savings accounts	2,514,040	2,127,797
Deferred income and deposits	856,488	902,661
Notes payable (Note 8)	10,450,000	10,000,000
Loan payable (Note 8)	1,000,000	1,400,000
Split-interest agreements	8,396,808	11,180,214
Accrued key employees' retirement (Note 10)	698,632	1,098,475
Unamortized life memberships deferred revenue (Note 7)	13,363,548	12,914,192
Total liabilities	39,136,067	42,332,085
Net Assets		
Unrestricted	2,886,271	10,409,579
Temporarily restricted (Notes 11 and 13)	67,846,944	86,483,094
Permanently restricted (Notes 12 and 13)	56,224,991	68,411,141
Total net assets	126,958,206	165,303,814
Commitments (Notes 1 and 14)		
Total liabilities and net assets	\$ 166,094,273	\$ 207,635,899

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions (Note 5)	\$ 7,787,815	\$ 15,413,516	\$ 1,436,185	\$ 24,637,516
Membership dues	281,600	—	—	281,600
Life member amortization (Note 7)	268,696	—	—	268,696
Merchandise sales	72,371	—	—	72,371
Net investment loss (Note 3)	(6,195,885)	(17,132,255)	(522,994)	(23,851,134)
Publications and advertising	210,053	—	—	210,053
House activities	76,191	—	—	76,191
Career transition services	589,755	—	—	589,755
Homecoming and conference fees	109,766	—	—	109,766
Fund administrative fee	1,164,975	—	—	1,164,975
Royalties	477,484	—	—	477,484
Travel income	39,677	—	—	39,677
Other	109,719	—	—	109,719
Other support:				
Change in value of split-interest agreements	(478,264)	(974,087)	986,662	(465,689)
Changes in donors' intent (Note 9)	4,434,472	9,651,531	(14,086,003)	—
Net assets released from restrictions (Note 9)	25,594,855	(25,594,855)	—	—
Total revenue and gains	\$ 34,543,280	(\$ 18,636,150)	(\$12,186,150)	\$ 3,720,980
Expenses:				
Program services:				
Support to the Naval Academy (Note 5)	11,208,275	—	—	11,208,275
Alumni publications	1,263,144	—	—	1,263,144
Membership support	2,096,659	—	—	2,096,659
Partnership marketing	607,815	—	—	607,815
Alumni communications	971,577	—	—	971,577
Career transitions	741,228	—	—	741,228
Total program services	\$ 16,888,698	—	—	\$ 16,888,698
Supporting services:				
Development	23,336,771	—	—	23,336,771
General and administrative	1,841,119	—	—	1,841,119
Total supporting services	\$ 25,177,890	—	—	\$ 25,177,890
Total expenses	\$ 42,066,588	—	—	\$ 42,066,588
Change in net assets	(7,523,308)	(18,636,150)	(12,186,150)	(38,345,608)
Net assets at beginning of year	10,409,579	86,483,094	68,411,141	165,303,814
Net assets at end of year	\$ 2,886,271	\$ 67,846,944	\$ 56,224,991	\$ 126,958,206

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions (Note 5)	\$ 7,913,340	\$ 18,981,487	\$ 3,511,652	\$ 30,406,479
Membership dues	274,031	—	—	274,031
Life member amortization (Note 7)	257,513	—	—	257,513
Merchandise sales	60,585	—	—	60,585
Net investment loss (Note 3)	(149,616)	(268,388)	(320,539)	(738,543)
Publications and advertising	218,538	—	—	218,538
House activities	3,162	—	—	3,162
Career transition services	721,232	—	—	721,232
Homecoming and conference fees	88,542	—	—	88,542
Fund administrative fee	1,259,322	—	—	1,259,322
Royalties	497,266	—	—	497,266
Travel income	61,680	—	—	61,680
Other	86,905	—	—	86,905
Other support:				
Change in value of split-interest agreements	(574,450)	(264,717)	(327,297)	(1,166,464)
Changes in donors' intent (Note 9)	(13,385)	(2,947,928)	2,961,313	—
Net assets released from restrictions (Note 9)	31,292,025	(31,292,025)	—	—
Total revenue and gains	\$ 41,996,690	(\$ 15,791,571)	\$ 5,825,129	\$ 32,030,248
Expenses:				
Program services:				
Support to the Naval Academy (Note 5)	29,880,869	—	—	29,880,869
Alumni publications	1,420,739	—	—	1,420,739
Membership support	2,161,003	—	—	2,161,003
Partnership marketing	579,118	—	—	579,118
Alumni communications	870,450	—	—	870,450
Career transitions	704,994	—	—	704,994
Total program services	\$ 35,617,173	—	—	\$ 35,617,173
Supporting services:				
Development	6,740,445	—	—	6,740,445
General and administrative	1,950,599	—	—	1,950,599
Total supporting services	\$ 8,691,044	—	—	\$ 8,691,044
Total expenses	\$ 44,308,217	—	—	\$ 44,308,217
Change in net assets	(2,311,527)	(15,791,571)	5,825,129	(12,277,969)
Net assets at beginning of year	12,721,106	102,274,665	62,586,012	177,581,783
Net assets at end of year	\$ 10,409,579	\$ 86,483,094	\$ 68,411,141	\$ 165,303,814

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 And 2008

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ (38,345,608)	\$ (12,277,969)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	355,235	338,207
Change in discount and allowance on contributions receivable	(3,239,888)	(834,099)
Amortization of life memberships	(268,696)	(257,512)
Net realized and unrealized losses on investments	25,999,962	5,336,117
Split-interest agreements	(2,783,406)	(1,167,005)
Interest in third party trusts	556,036	320,542
Net loss on sales of property and equipment	—	12,298
Contributed securities	(1,800,909)	(3,663,361)
Contributions restricted for long-term investment	(29,552,493)	(5,226,938)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable and other current assets	(104,810)	(38,141)
Contributions receivable	16,477,566	(654,229)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(814,730)	(153,405)
Deposits on life memberships	(37,465)	(902)
Class savings accounts	386,243	24,690
Deferred income and deposits	(46,173)	(40,434)
Accrued key employees' retirement	(399,843)	54,062
Unamortized life memberships deferred revenue	718,052	720,395
Net cash used in operating activities	(32,900,927)	(17,507,684)
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,237,609)	(1,981,335)
Purchase of investments	(19,378,766)	(28,109,246)
Proceeds from sales or maturities of investments	23,533,960	31,562,777
Net cash provided by investing activities	2,917,585	1,472,196
Cash Flows From Financing Activities		
Proceeds from contributions restricted for long-term investment	31,019,531	8,685,655
Proceeds from issuance of note payable	1,000,000	7,750,000
Principal payments on notes payable	(550,000)	(250,000)
Principal payments on loan payable	(400,000)	(1,600,000)
Net cash provided by financing activities	31,069,531	14,585,655
Net increase (decrease) in cash and cash equivalents	1,086,189	(1,449,833)
Cash And Cash Equivalents		
Beginning of year	1,886,925	3,336,758
End of year	\$ 2,973,114	\$ 1,886,925
Supplemental Disclosure Of Cash Flow Information		
Cash paid during year for interest	\$ 281,046	\$ 414,655
Supplemental Disclosure Of Noncash Investing And Financing Activities		
Contributed securities	\$ 1,800,909	\$ 3,663,361
Other non-cash assets	\$ 471,582	\$ 5,738,189
Purchases of property and equipment included in accounts payable and accrued expenses	\$ —	\$ 133,606

See Notes To Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organizations And Summary Of Significant Accounting Policies

The consolidated financial statements of The United States Naval Academy Alumni Association, Inc. (the Alumni Association) and the United States Naval Academy Foundation, Inc. (the Foundation) have been prepared on the accrual basis of accounting. The two entities are collectively referred to herein as the Associations. Significant intercompany amounts have been eliminated in consolidation. The significant accounting policies are described below.

Organization: The Alumni Association is a not-for-profit, independent, self-supporting corporation of the Naval Academy alumni. First formed in 1886 as the United States Naval Academy Graduates Association, it was organized for educational and charitable purposes in 1931. It is dedicated to serve and support the nation, the naval service, the Naval Academy, and its alumni.

The Foundation was established in 1944 as an organization to support Naval Academy athletics and candidates for admission to the Naval Academy. The private giving arm of the Foundation was established in 1968 under the name of the United States Academy Memorial Fund, Inc. (the Memorial Fund).

During 1996, the name of the Memorial Fund was changed to the Naval Academy Associates, Inc. During 1997, the name of the Associates was changed to the Naval Academy Endowment Trust, Inc. (the Endowment Trust). As of December 31, 1999, the Endowment Trust amalgamated with the U.S. Naval Academy Foundation and changed its name to United States Naval Academy Foundation, Inc. The Foundation is a not-for-profit, independent organization created to raise private contributions to benefit the United States Naval Academy, the Brigade of Midshipmen (the Naval Academy), and the Alumni Association. The Alumni Association manages the investment and administrative functions of the Foundation. The Foundation records its share of actual expenses incurred by the Alumni Association for such services.

Net assets classification: Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Associations and changes therein are classified and reported 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 may or will be met either by actions of the Associations and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the Associations maintain them permanently. Generally, the donors of these assets permit the Associations to use all or a part of the income earned on related investments for general or specific purposes.

Revenue recognition: Contributions, including unconditional promises to give (pledges), are recognized as revenues in the year received. Promises to give are reported net of current year adjustments and discounts. Contributions for the benefit of the Naval Academy are recorded as contributions revenue when received and as support expenses when paid. The Alumni Association recognizes income from life membership dues over the life expectancy of the member at the time he or she becomes a member.

Contributions and investment income: Contributions and investment income are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed purpose or time restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the Consolidated Statements of Activities (see Note 9).

Contributions with donor-imposed time restrictions are reported as unrestricted revenues when those restrictions are met in the same year as received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization And Summary Of Significant Accounting Policies (*Continued*)

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Career transitions program expenses relate to the Service Academies Career Conference and career transition programs. Membership support expenses are the costs to provide services to members of the Alumni Association for class and chapter support and for special alumni events. Partnership marketing expenses relate to affinity programs and the cost of sales on merchandise. Alumni publication expenses consist primarily of the cost to produce *Shipmate* magazine and the Service Academy Business Resource Directory (SABRD). Alumni communication expenses support all electronic and Web-site-based communications. Development expenses are the costs to raise funds for the Naval Academy and the Associations.

Cash equivalents: Cash equivalents are short-term investments with original maturities at date of purchase of three months or less, excluding those short-term investments managed by the Associations' investment managers as part of their long-term investment strategies. Cash equivalents consisting of an overnight sweep investment account of \$1,843,642 at June 30, 2008, are carried at fair value. There were no amounts of cash equivalents held in overnight sweep accounts at June 30, 2009.

Accounts receivable: Accounts receivable consists of current amounts due to the Alumni Association for life and corporate membership dues, advertising in *Shipmate* magazine, and events held at Alumni House. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on receivables that are outstanding for more than 30 days. Management has determined that an allowance for doubtful accounts on accounts receivable was not necessary at June 30, 2009 and 2008.

Contributions receivable: Contributions are recognized when the donor makes a promise to give to the Associations that is, in substance, unconditional.

In accordance with SFAS No. 116, *Accounting for Contributions Recorded and Contributions Made*, contributions to be received in a future period are discounted to their net present value at the time the revenue is recorded. The Associations' contributions are discounted at a rate of 5%.

The Associations use the allowance method to determine uncollectible contributions. Management determines the allowance for uncollectible contributions by identifying troubled accounts and by using historical experience applied to an aging of accounts.

Investments: Investments are reported at fair value. Investments in debt and equity securities and mutual funds are based on quoted market prices. Investments in other investments are reported at fair value as determined and reported by the general partners or investment managers or the Associations staff. Certain alternative investments are carried at estimated fair value as of March 31, 2009 and 2008, as adjusted for cash receipts, cash distributions and security distributions through June 30, 2009 and 2008, respectively. The Associations believe that the carrying amount for these investments is a reasonable estimate of fair value as of June 30, 2009 and 2008. Investments valued as of March 31 accounts for approximately 1% of total investments as of June 30, 2009 and 2008. Under the terms of certain private investment contracts, the Associations are obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2009, the Associations' had uncalled commitments of approximately \$19,400,000. Such commitments are generally called over a period of years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization And Summary Of Significant Accounting Policies (*Continued*)

The investments described above are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the related changes in value, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances from the amounts reported in the financial statements.

Investments are used for operations, class savings accounts, split-interest agreements, board-designated life membership funds, support for the Naval Academy, and the Associations' endowments. Both entities initially record donated securities at the fair value on the date of the gift.

The Associations' core portfolio largely consists of various mutual funds under a principal investment manager. The multi-asset mutual funds provide exposure to several asset class segments: global stocks, absolute return, high yield bonds, REIT's, commodities, resource-related stocks, inflation linked bonds, conventional bonds, and cash equivalents.

Property and equipment: Property and equipment is stated at cost, less accumulated depreciation. Depreciation of property and equipment and amortization of software are computed using the straight-line method at rates adequate to depreciate and amortize the applicable assets over their expected useful lives, as follows:

Buildings and improvements	27 – 50 years
Furniture and equipment	5 – 10 years
Computer equipment and software	3 – 5 years

Maintenance and repair expenses are charged against operations. Expenditures for improvements that extend the useful lives of the assets are capitalized.

Valuation of long-lived assets: The Associations account for long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flow expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Class savings accounts: The Alumni Association is the custodian of various class savings accounts. These funds are invested and included in the Alumni Association's investments (\$1,854,507 and \$1,983,482 at June 30, 2009 and 2008, respectively) and cash and cash equivalents (\$659,533 and \$144,315 at June 30, 2009 and 2008, respectively), but are restricted for use by the Alumni classes on Alumni events. The Alumni Association charges an administrative fee equal to 20% of the interest and realized and unrealized gains earned on each classes' account balance, which is included in investment income (loss) in the Consolidated Statements of Activities.

Deferred income and deposits: Funds received for an affinity credit card agreement are recognized as royalty revenue over the life of the agreement. The remainder of deferred income and deposits consists of prepaid annual dues. Annual dues are amortized monthly into income over a period of one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization And Summary Of Significant Accounting Policies

Split-interest agreements: The Associations are the beneficiaries of several split-interest agreements, including charitable remainder unitrusts for which the Associations act as the trustee, charitable gift annuities, and a pooled income fund. Under charitable remainder trust agreements, the donor establishes and funds a trust. As trustee, the Associations make specified distributions to designated beneficiaries over the trust's term. Upon termination of the trust, the Associations receive all or portions of the remaining trust assets, as set forth in the trust agreement. Under charitable gift annuity agreements, the Associations pay a fixed annuity amount for the life of the beneficiary(ies) and receive the remaining assets upon the death of the beneficiary(ies) as set forth in the annuity agreements. Under pooled income fund agreements, donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund. Until a donor's death, the donor is paid the actual income earned on the donor's assigned units. Upon the donor's death, the value of these assigned units reverts to the Alumni Association.

In the year of the gift, contribution revenue is recognized based on the net amount of the assets and liabilities of split-interest agreements. The contribution revenue recognized under such agreements was \$46,836 and \$153,033 during the years ended June 30, 2009 and 2008, respectively. The fair value of the assets held for all split-interest agreements was \$12,633,337 and \$15,889,601 as of June 30, 2009 and 2008, respectively. The liability to beneficiaries from the life-contingent agreements represents the present value of the estimated future payments based on actuarial assumptions. The liability for fixed term charitable remainder unitrusts is accounted for in accordance with the implementation guidance of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Adjustments to the liability to reflect any changes in actuarial assumptions, amortization of the discount, and fair value of an embedded derivative are recognized as change in values in the Consolidated Statements of Activities. The discount rates were determined at the time of initial contribution and range from 2.0% to 8.2%. The estimated life expectancies used for the charitable gift annuity agreements are from the Annuity 2000 Mortality Tables and the 90CM tables for all trusts.

Interest in third-party trusts: The Associations are the beneficiary of certain third-party trusts held and administered by others. The estimated fair values of the trust assets, which approximate the present values of expected future cash flows from the Trust, are recognized as assets and as gift revenue when the Trusts are established or when reported to the Associations. Subsequent changes to the fair values of the trust assets are recognized as investment income.

Fund administrative fees: Restricted cash gifts are subject to an implementation fee of 5% in the year of receipt of the gift, which helps defray the cost of fund-raising and communication. Balances of restricted accounts of funds collected in a prior year are subject to fees for administrative services. Restricted accounts are subject to a .85% fee paid quarterly based on the cash balance at the beginning of the year. The fees are recorded as fund administrative fees in the Consolidated Statements of Activities.

Income taxes: The Alumni Association has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (the Code), except for taxes on income generated from unrelated business activities such as the Alumni Travel Program, certain sponsorship income, advertising income from *Shipmate* magazine, and certain investment income. The Foundation has also been recognized by the IRS as exempt from federal income taxes under section 501(c)(3) of the Code.

Since the unrelated business income for the periods ended June 30, 2009 and 2008 was not material, no provision for income taxes has been made.

Fair value of financial instruments: The carrying amounts reported on the Consolidated Statements of Financial Position for cash and cash equivalents, receivables, accounts payable, and accrued expenses approximate their fair values. The fair value of the Association's notes and other long-term debt approximate the carrying amounts, based on loans with similar terms and average maturities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization And Summary Of Significant Accounting Policies

Credit risk: At certain times during the year, the Associations have funds on deposit with a financial institution in excess of federally insured amounts. The Associations have not experienced any losses on cash accounts and management believes they are not exposed to significant credit risk on cash.

Use of estimates: Management of the Associations has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reporting of revenues and expenses to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Development expense: During the year ended June 30, 2009, pledges totaling \$19,183,802 were written off by the Associations. The pledges were written off as a result of the downturn in the economy and the change in financial ability of one donor in the amount of \$12,200,000. Bad debt expense is included in Development expense and reported in the year the pledge becomes uncollectible. The impact of the pledges written off increased Development expense for the year ended June 30, 2009 by \$19,183,802.

Recent accounting pronouncements: In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accreting in interim periods, disclosure, and transition. In December 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Associations have elected this deferral and accordingly will be required to adopt FIN 48 in its fiscal year 2010 financial statements.

Prior to adoption of FIN 48, the Associations will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Associations to accrue for losses they believe are probable and can be reasonably estimated. While management has not yet completed its analysis, it does not anticipate that the adoption of FIN 48 will have a material impact on its consolidated financial position, results of operations, or cash flows.

Subsequent events: The Associations have evaluated subsequent events for potential required disclosures through October 8, 2009, which is the date the consolidated financial statements were available to be issued.

Note 2. Contributions Receivable

Contributions receivable at June 30, 2009 and 2008, are summarized as follows:

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	\$ 10,530,971	\$ 15,535,573
One year to five years	18,145,659	30,638,990
Over five years	7,810,410	8,257,081
	36,487,040	54,431,644
Less allowance for uncollectible amounts	(4,364,960)	(6,437,382)
Less discount to present value (5%)	(4,069,943)	(5,237,409)
	<u>\$ 28,052,137</u>	<u>\$ 42,756,853</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments

Investments at fair value at June 30, 2009 and 2008, are summarized as follows:

	2009	2008
Cash and cash equivalents	\$ 1,785,771	\$ 1,521,814
Share certificates	1,520,290	1,302,196
Debt securities bonds and notes	950,520	2,230,452
Equity securities stocks	504,097	801,126
Total cash, cash equivalents, certificates and securities	4,760,678	5,855,588
Mutual funds		
Fixed income and debt mutual funds	15,124,499	11,262,775
Equity mutual funds	12,678,807	19,433,204
Combined fixed income and equity funds	416,810	329,243
Multi-asset mutual funds	71,228,549	97,672,604
Total mutual funds	99,448,665	128,697,826
Other investments		
Limited partnerships	10,454	14,475
Private equity funds	6,280,116	5,927,898
Private realty and resources funds	1,766,112	875,411
Hedge funds	10,590,864	10,860,848
Charitable gift annuity reinsurance	1,013,028	—
Charitable life insurance policies	1,054,105	1,046,223
Total other investments	20,714,679	18,724,855
	\$ 124,924,022	\$ 153,278,269

Net investment income for the years ended June 30, 2009 and 2008, is as follows:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 887,860	\$ 2,186,539	\$ —	\$ 3,074,399
Net realized losses	(1,449,049)	(2,775,794)	—	(4,224,843)
Net unrealized losses	(4,550,063)	(17,225,056)	(522,994)	(22,298,113)
Less management fees	(120,163)	(282,414)	—	(402,577)
	(5,231,415)	(18,096,725)	(522,994)	(23,851,134)
Transfer to return corpus	(964,470)	964,470	—	—
Net investment losses	\$(6,195,885)	\$(17,132,255)	\$ (522,994)	\$ (23,851,134)

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 1,443,467	\$ 3,939,986	\$ —	\$ 5,383,453
Net realized gains	2,193,596	5,893,354	—	8,086,950
Net unrealized losses	(3,570,150)	(9,852,917)	(320,539)	(13,743,606)
Less management fees	(157,091)	(308,249)	—	(465,340)
	(90,178)	(327,826)	(320,539)	(738,543)
Transfer to return corpus	(59,438)	59,438	—	—
Net investment losses	\$ (149,616)	\$ (268,388)	\$ (320,539)	\$ (738,543)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments (Continued)

During fiscal year 2009, a number of the permanently restricted endowment funds sustained realized and unrealized investment losses, which resulted in the fund balances falling below corpus. A portion of unrestricted net assets has been reclassified as temporarily restricted to restore these balances to corpus levels. When the permanently restricted endowment funds' balances rise above corpus, the unrestricted net assets that had been previously reclassified as temporarily restricted will be transferred back to unrestricted. Deficiencies of this nature that are reported in unrestricted net assets were \$1,023,908 as of June 30, 2009.

Note 4. Fair Value Measurements

Effective July 1, 2008, the Associations adopted SFAS No. 157, *Fair Value Measurements*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect assumptions based on the best information available under the circumstances. The Associations' investment managers and staff use valuation techniques that maximize the use of observable inputs, and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets;

Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

The following table sets forth by level within the fair value hierarchy assets measured and reported at fair value on a recurring basis in the Consolidated Statements of Financial Position at June 30, 2009.

	Level 1	Level 2	Level 3	Total
Debt securities bonds and notes	\$ 950,520	\$ —	\$ —	\$ 950,520
Equity securities stocks	504,097	—	—	504,097
Mutual funds	99,448,665	—	—	99,448,665
Limited partnerships	—	—	10,454	10,454
Private equity funds	—	—	6,280,116	6,280,116
Private realty and resources funds	—	—	1,766,112	1,766,112
Hedge funds	—	—	10,590,864	10,590,864
Charitable life insurance policies	—	1,054,105	—	1,054,105
Charitable gift annuity reinsurance	—	1,013,028	—	1,013,028
Interest in third party trusts	—	—	2,566,704	2,566,704
Interest in charitable remainder unitrusts with third-party trustees	—	—	2,476,806	2,476,806
Total	\$ 100,903,282	\$ 2,067,133	\$ 23,691,056	\$ 126,661,471

SFAS No. 157 excludes cash and cash equivalents from the fair value hierarchy as cash and cash equivalents are generally measured at cost. As such, \$1,785,771 of cash and cash equivalents and \$1,520,290 of share certificates held in the Associations' investment portfolio at June 30, 2009 have been excluded from this table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3):

Fair Value Activity for the Year Ended June 30, 2009

	Limited Partnership	Private Equity Funds	Private Realty And Resources Funds	Hedge Funds	Interest In Third-Party Trusts	Interest In CRUTs With Third-Party Trustees	Total
Balance, June 30, 2008	\$ 14,475	\$ 5,927,898	\$ 875,411	\$10,860,848	\$ 3,122,741	\$ 3,151,224	\$23,952,597
Total realized and unrealized losses	(4,021)	(1,677,104)	(329,299)	(269,984)	(522,994)	–	(2,803,402)
Transfer in/(out) of Level 3	–	2,029,322	1,220,000	–	(45,983)	–	3,203,339
Change in value	–	–	–	–	12,940	(674,418)	(661,478)
Balance, June 30, 2009	\$ 10,454	\$ 6,280,116	\$ 1,766,112	\$10,590,864	\$ 2,566,704	\$2,476,806	\$23,691,056
Unrealized losses and change in value relating to assets still held as of June 30, 2009	\$ (4,021)	\$ (1,888,076)	\$ (329,299)	\$ (269,984)	\$ (510,055)	\$ (674,418)	\$ (3,675,853)

The Associations categorize assets in the scope of SFAS No. 157 within the fair value hierarchy based on their understanding of the valuation process used by their investment managers or general partners to derive the fair value and their judgment regarding the observability of the related inputs. In evaluating the observability of such inputs, the Associations' staff considered factors such as the extent of market benchmarks available and the judgments or modeling required in the valuation process.

Limited partnership: The fair value of the partnership is determined based on the audited financial statements which the entity prepares on an annual basis as of the Associations' reporting date. The underlying assets of the partnership primarily consist of bank accounts, marketable securities, debt instruments, loans to partners and a prepaid inheritance paid to a descendent of a family member/limited partner.

Private equity funds, private realty and resources funds, and hedge funds: Substantially all of the Associations' investments in private equity, realty and resources, and hedge funds represent interest in fund of funds. In each underlying fund, securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third party transactions in the private market or the fair value deemed appropriate by relevant market participants. The fund of funds then obtains its share of the valuation from the underlying investment managers.

The Associations hold an equity interest in a group of commercial real estate partnerships and apply an income approach to determine the fair value of the partnerships. The present value of the estimated future rental income is based on the applicable revenue multiples published by market analysts.

The Associations perform due diligence procedures to review the valuations reported from their investment managers and general partners.

Interest in third-party trusts: The Associations' staff estimates their beneficial interest in the third-party trusts

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (*Continued*)

using the discount cash flow method of the expected future income for a specified term or in perpetuity based on the donors' life expectancy and the expected investment return.

Note 5. In-Kind Contributions

The Foundation contributes the use of its houses to the Naval Academy Athletic Association valued at an annual amount of \$354,664 and \$208,013 in 2009 and 2008, respectively. Contributed services related to property management of the Foundation's houses are donated by the Naval Academy Athletic Association valued at an annual amount of \$69,035 and \$188,465 in 2009 and 2008, respectively.

During 2009 and 2008, the Associations received non-cash donations of assets for use by the Naval Academy valued at \$471,582 and \$5,738,189, respectively, which have been shown as temporarily restricted contributions and support to the Naval Academy (program expense) in the accompanying Consolidated Statements of Activities.

Note 6. Property And Equipment

Property and equipment at June 30, 2009 and 2008, is summarized as follows:

	2009	2008
Land	\$ 753,197	\$ 526,578
Buildings and improvements	8,162,109	7,253,136
Furniture and equipment	928,255	793,638
Computer equipment and software	396,516	484,118
Construction in progress	–	61,003
	10,240,077	9,118,473
Less accumulated depreciation and amortization	(3,303,142)	(3,063,912)
	<u>\$ 6,936,935</u>	<u>\$ 6,054,561</u>

Depreciation expense was \$355,235 and \$338,207 for the years ended June 30, 2009 and 2008, respectively.

Note 7. Life Memberships

In 1976, the Alumni Association started its life membership program, which enables midshipmen to pay a specified life membership fee prior to graduation. In exchange for this fee, members receive a subscription to *Shipmate* magazine and various other service benefits and opportunities. The Alumni Association records the midshipmen's fees as deposits on life memberships until the respective class graduation. At June 30, 2009 and 2008, the Alumni Association held \$551,943 and \$589,408, respectively, of midshipmen life membership fees. After graduation, the fees are reclassified as unamortized life membership deferred revenue and are amortized over an assumed 61-year remaining life expectancy of the graduating midshipmen. During the years ended June 30, 2009 and 2008, \$573,714 and \$570,830, respectively, relating to the graduating classes of 2009 and 2008, were reclassified as unamortized life memberships deferred revenue. Payments from alumni who join the life membership program after graduation are recorded as deferred revenue and amortized over an assumed remaining life expectancy of 55 years.

The unamortized life memberships deferred revenue represents the deferred revenue from life membership cash receipts rather than the liability to service the life members over their life expectancies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Notes And Loan Payable

The Foundation has a \$10,000,000 note from a bank under an unsecured, open-end revolving line of credit expiring in December 2011 for short term cash flow needs of restricted projects. Principal is due on demand. Interest, which is due in monthly installments, is based on the 30-day London Interbank Offered Rate (LIBOR) index rate plus 0.6%. At June 30, 2009 and 2008, the 30-day LIBOR index rate was .92% and 2.46%, respectively.

The note is guaranteed by the Naval Academy Athletic Association, Inc. Interest expense of \$160,576 and \$277,552 was recorded during the years ended June 30, 2009 and 2008, respectively. The Foundation repaid \$550,000 of the principal in fiscal year 2009. The outstanding balance of this note was \$6,900,000 and \$7,450,000 as of June 30, 2009 and 2008, respectively.

In October 2006, the Associations obtained an \$8,000,000 note from a bank under an unsecured, open-end revolving line of credit expiring in October 2011 for use as an operating line of credit. During fiscal year 2009, the Associations borrowed an additional \$1,000,000. No repayments were made during fiscal year 2009. Principal is due on demand. Interest is based on the 30-day LIBOR index rate plus 0.5% and is payable monthly. Interest expense of \$55,908 and \$26,383 was recorded during the years ended June 30, 2009 and 2008, respectively. The outstanding balance of this note was \$3,550,000 and \$2,550,000 as of June 30, 2009 and 2008, respectively.

In May 2004, the Foundation signed a loan and gift agreement with an unrelated donor in the amount of \$5,000,000 restricted for the Navy Marine Corps Memorial Stadium Renovation project. During July 2004, \$4,000,000 was received by the Foundation from the donor. The terms of the agreement include repayment of the loan in annual principal installments beginning December 1, 2005 through December 1, 2008 after the unsecured open-end revolving line of credit for Navy Marine Corps Memorial Stadium is paid. Interest at a rate of 3.5% is due annually with the donor contributing the interest for the first year and a half to the Foundation. Interest expense of \$64,562 and \$81,200 was recorded during the years ended June 30, 2009 and 2008, respectively. The Foundation repaid \$400,000 and \$1,600,000 of the principal in fiscal years 2009 and 2008, respectively. The outstanding balance of this loan at June 30, 2009 and 2008 was \$1,000,000 and \$1,400,000, respectively.

Note 9. Net Assets Released From Restrictions And Changes In Donors' Intent

Net assets of \$25,594,855 and \$31,292,025 for the years ended June 30, 2009 and 2008, respectively, were released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors. Amounts shown as changes in donors' intent for the year ended June 30, 2009 represent reclassifications of \$4,434,472 to unrestricted net assets and \$9,651,531 to temporarily restricted net assets from permanently restricted net assets. Amounts shown as changes in donors' intent for the year ended June 30, 2008 represent reclassifications of \$13,385 from unrestricted net assets and \$2,947,928 from temporarily restricted net assets to permanently restricted net assets.

Note 10. Retirement Plans

403(b) savings plan: The Alumni Association maintains a deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code for all eligible employees. The Alumni Association matches employee's contributions up to 7.5% of base salary. An independent trustee holds the assets of the Plan. During the years ended June 30, 2009 and 2008, the Alumni Association made contributions of \$265,757 and \$309,340, respectively, on behalf of its eligible employees.

457 plans: The Alumni Association has entered into agreements with six key employees to provide certain retirement and other payments to them as part of retention planning. These non-qualified plans are administered under Sections 457(b), e(11) and (f) of the Internal Revenue Code. The payments are either deferred or contingent on the employee meeting certain conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Retirement Plans (Continued)

At June 30, 2009 and 2008, the Alumni Association's liability for these plans was \$698,632 and \$1,098,475, respectively. Total retirement expense under these plans for the years ended June 30, 2009 and 2008, was \$184,793 and \$101,319, respectively.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets represent funds to be received in future years from split-interest agreements, pledges, and amounts to be spent on behalf of the Naval Academy. A portion of net assets is restricted for use on projects specified by the donor. These purpose-restricted assets are released when expended on the specified project. In addition, pledges to be received in future years are classified as temporarily restricted based on an implied time restriction.

	2009	2008
Naval Academy Centers of Excellence:		
Academic	\$ 21,571,567	\$ 27,708,455
Admissions	5,092,746	6,546,246
Athletics	6,440,536	14,181,240
Character (ethics)	7,875,868	8,667,896
Leadership	10,249,567	11,713,915
Support to the Naval Academy not yet assigned to a center of excellence	430,035	3,811,561
Purpose restricted assets	51,660,319	72,629,313
Time restricted assets	16,186,625	13,853,781
Total temporarily restricted net assets	\$ 67,846,944	\$ 86,483,094

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2009 and 2008, are invested to fund the following:

	2009	2008
Endowments supporting U.S. Naval Academy	\$ 48,043,575	\$ 59,175,089
Endowments supporting athletics and scholarship	5,465,896	5,988,891
Endowments supporting operations	2,715,520	3,247,161
Total permanently restricted net assets	\$ 56,224,991	\$ 68,411,141

Note 13. Endowment Funds

In August 2008, the FASB issued FSP No. FAS 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Fund Act, and Enhanced Disclosures for All Endowed Funds*. This FSP provides guidance on net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FSP also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The Associations have added the required disclosures in the consolidated financial statements, which is a requirement for any organization with endowment funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Endowment Funds (*Continued*)

The Associations' endowment consists of approximately 72 individual funds established for a variety of purposes. These endowment funds are donor-restricted. The Associations do not have any board-designated endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board of Trustees of the Association and the Board of Directors of the Foundation have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Associations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 Associations in a manner consistent with the standard of prudence prescribed by UPMIFA. Accordingly, the Associations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Associations and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Associations
- (7) The investment policies of the Associations

Return objectives and risk parameters: The Associations' return objective is to preserve and enhance the purchasing power of the endowment investments over time, net of costs and withdrawals. This goal is synonymous with the pursuit of time-weighted net return on the investments that equals or exceeds inflation (as measured by the Consumer Price Index), plus spending from the investments. To satisfy this return objective, the Associations utilize a multi-asset class diversified portfolio that relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Associations are prepared to incur risks consistent with the pursuit of the return objective. Risk will be measured based on both an absolute and a relative basis. Absolute metrics relate to declines in the inflation-adjusted market value of the portfolio. On a relative basis, the portfolio will be measured against portfolios of similar size and composition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Endowment Funds (Continued)

Endowment spending policy: The Associations operate a spending policy to regulate the use of proceeds from endowment investments. The policy provides for the spending of up to 5% of the 12-quarter moving average of the market value of pooled investment funds. The policy further states that when the average investment return of the most recent four quarters is negative, the spending rate will be reduced to 4%. The reduced spending rate of 4% was implemented during 2003 following an extended period of below-average investment performance and has continued through fiscal year 2009.

Changes in endowed net assets for the fiscal year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (59,438)	\$ 18,733,509	\$ 68,411,141	\$ 87,085,212
Interest and dividends–net of investment expense	–	(746,559)	–	(746,559)
Net appreciation	(964,470)	(8,821,636)	(522,994)	(10,309,100)
Change in value	–	–	986,662	986,662
Contributions	–	–	1,436,185	1,436,185
Amounts appropriated for expenditure	–	(1,094,658)	–	(1,094,658)
Change in donor intent	–	(997,947)	(14,086,003)	(15,083,950)
Endowment net assets, end of year	<u>\$ (1,023,908)</u>	<u>\$ 7,072,709</u>	<u>\$ 56,224,991</u>	<u>\$ 62,273,792</u>

Note 14. Operating Leases

The Associations entered into several lease agreements for office equipment expiring through August 31, 2013. Future minimum lease payments under noncancelable operating leases as of June 30, 2009, are due as follows:

Years Ending June 30,	Operating Leases
2010	\$ 62,136
2011	39,369
2012	3,780
2013	486
Total minimum lease payments	<u>\$ 105,771</u>

The Associations' rental expense was \$68,574 and \$41,863 for the years ended June 30, 2009 and 2008, respectively.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information, which follows, is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Timonium, Maryland
October 8, 2009

STATEMENTS OF FINANCIAL POSITION
June 30, 2009 And 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 960,051	\$ 516,402
Accounts receivable and other current assets	401,905	433,645
Contributions receivable, net	1,944,586	2,852,082
Investments	46,884,818	59,701,941
Property and equipment, net	3,582,851	3,058,264
Interest in third party trusts	375,124	408,165
Intercompany receivables	1,893,140	87,633
Total assets	\$ 56,042,475	\$ 67,058,132
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,019,546	\$ 1,452,783
Deposits on life memberships	551,943	589,408
Class savings accounts	2,514,040	2,127,797
Deferred income and deposits	852,356	888,754
Note payable	1,000,000	—
Split-interest agreements	1,399,471	1,668,880
Accrued key employees' retirement	698,632	1,098,475
Unamortized life memberships	13,363,548	12,914,192
Total liabilities	\$ 21,399,536	\$ 20,740,289
Net assets		
Unrestricted	2,353,289	8,051,588
Temporarily restricted	11,598,262	18,283,554
Permanently restricted	20,691,388	19,982,701
Total net assets	\$ 34,642,939	\$ 46,317,843
Total liabilities and net assets	\$ 56,042,475	\$ 67,058,132

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	\$ 397,096	\$ 2,127,172	\$ 474,995	\$ 2,999,263
Membership dues	281,600	—	—	281,600
Life member amortization	268,696	—	—	268,696
Merchandise sales	72,371	—	—	72,371
Net investment losses	(3,588,079)	(5,652,792)	—	(9,240,871)
Publications and advertising	210,053	—	—	210,053
House activities	76,191	—	—	76,191
Intercompany support	1,345,164	—	—	1,345,164
Career transition services	589,755	—	—	589,755
Homecoming and conference fees	109,766	—	—	109,766
Royalties	477,484	—	—	477,484
Travel income	39,677	—	—	39,677
Other	33,316	—	—	33,316
Other support:				
Change in value of split-interest agreements	(243,904)	(149,588)	841	(392,651)
Changes in donors' intent	(300)	(218,539)	232,851	14,012
Equity loans to endowments	(303,749)	303,749	—	—
Net assets released from restrictions	3,095,294	(3,095,294)	—	—
Total revenue, gains and other support	2,860,431	(6,685,292)	708,687	(3,116,174)
Expenses:				
Support to the Naval Academy	1,998,836	—	—	1,998,836
Audit and accounting	49,347	—	—	49,347
Awards and gifts	7,825	—	—	7,825
Bad debt expense	1,048,644	—	—	1,048,644
Conferences	166,996	—	—	166,996
Cost of goods	48,807	—	—	48,807
Depreciation	189,897	—	—	189,897
Donor cultivation	3,766	—	—	3,766
Equipment rental	170,304	—	—	170,304
Insurance	84,509	—	—	84,509
Legal fees	161,711	—	—	161,711
Licenses	114,704	—	—	114,704
Membership dues	8,301	—	—	8,301
Miscellaneous	56,553	—	—	56,553
Occupancy	217,467	—	—	217,467
Postage and shipping	166,167	—	—	166,167
Printing and publications	445,929	—	—	445,929
Professional and contract services	596,446	—	—	596,446
Salaries and benefits	2,983,302	—	—	2,983,302
Shared information management	(215,049)	—	—	(215,049)
Supplies	57,742	—	—	57,742
Telephone	76,545	—	—	76,545
Training	29,340	—	—	29,340
Travel and transportation	90,641	—	—	90,641
Total expenses	8,558,730	—	—	8,558,730
Change in net assets	(5,698,299)	(6,685,292)	708,687	(11,674,904)
Net assets at beginning of year	8,051,588	18,283,554	19,982,701	46,317,843
Net assets at end of year	\$ 2,353,289	\$ 11,598,262	\$ 20,691,388	\$34,642,939

STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 2,013,063	\$ 1,370,523
Accounts receivable and other current assets	239,456	102,906
Contributions receivable, net	26,107,551	39,904,771
Investments	78,039,204	93,576,328
Property and equipment, net	3,354,084	2,996,297
Interest in third party trusts	2,191,580	2,714,575
Total assets	\$111,944,938	\$140,665,400
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 285,062	\$ 666,555
Deferred income	4,132	13,907
Notes payable	9,450,000	10,000,000
Loan payable	1,000,000	1,400,000
Split-interest agreements	6,997,337	9,511,334
Intercompany payables	1,893,140	87,633
Total liabilities	19,629,671	21,679,429
Net assets		
Unrestricted	5,323,664	7,372,788
Temporarily restricted	51,458,000	63,184,742
Permanently restricted	35,533,603	48,428,441
Total net assets	92,315,267	118,985,971
Total liabilities and net assets	\$111,944,938	\$140,665,400

STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	\$ 7,979,475	\$ 12,697,588	\$ 961,190	\$ 21,638,253
Fund administrative fee	1,164,975	—	—	1,164,975
Net investment losses	(2,486,976)	(11,600,292)	(522,995)	(14,610,263)
Intercompany support	(1,345,164)	—	—	(1,345,164)
Other	76,403	—	—	76,403
Other support:				
Change in value of split-interest agreements	(232,690)	(826,169)	985,821	(73,038)
Changes in donors' intent	4,432,613	9,872,229	(14,318,854)	(14,012)
Net assets released from restrictions	21,870,098	(21,870,098)	—	—
Total revenue, gains and other support	31,458,734	(11,726,742)	(12,894,838)	6,837,154
Expenses:				
Support to the Naval Academy	9,209,439	—	—	9,209,439
Audit and accounting	60,313	—	—	60,313
Awards and gifts	4,573	—	—	4,573
Bad debt expense	18,135,158	—	—	18,135,158
Conferences	56,985	—	—	56,985
Consulting—Advantage	417,474	—	—	417,474
Depreciation	165,338	—	—	165,338
Donor cultivation	81,184	—	—	81,184
Equipment rental	43,312	—	—	43,312
Insurance	23,536	—	—	23,536
Legal fees	77,740	—	—	77,740
Membership dues	9,821	—	—	9,821
Miscellaneous	190,801	—	—	190,801
Occupancy	71,840	—	—	71,840
Postage and shipping	62,880	—	—	62,880
Printing and publications	97,856	—	—	97,856
Professional and contract services	378,689	—	—	378,689
Salaries and benefits	4,024,468	—	—	4,024,468
Shared information management	215,049	—	—	215,049
Supplies	26,856	—	—	26,856
Training	17,612	—	—	17,612
Travel and transportation	136,934	—	—	136,934
Total expenses	33,507,858	—	—	33,507,858
Change in net assets	(2,049,124)	(11,726,742)	(12,894,838)	(26,670,704)
Net assets at beginning of year	7,372,788	63,184,742	48,428,441	118,985,971
Net assets at end of year	\$ 5,323,664	\$ 51,458,000	\$ 35,533,603	\$ 92,315,267

THE UNITED STATES NAVAL ACADEMY ALUMNI ASSOCIATION, INC. (AS OF JUNE 30, 2009)

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**UNITED STATES NAVAL ACADEMY
ALUMNI ASSOCIATION**

**MISSION OF THE UNITED STATES NAVAL
ACADEMY ALUMNI ASSOCIATION**

To serve and support the United States, the Naval Service, the Naval Academy, and its Alumni:

By furthering the highest standards at the Naval Academy;

By seeking out, informing, encouraging and assisting outstanding, qualified young men and women to pursue careers as officers in the Navy and Marine Corps through the Naval Academy; and

By initiating and sponsoring activities which will perpetuate the history, traditions, memories and growth of the Naval Academy and bind Alumni together in support of the highest ideals of command, citizenship and government.



**UNITED STATES NAVAL ACADEMY
FOUNDATION**

**MISSION OF THE UNITED STATES
NAVAL ACADEMY FOUNDATION**

To support, promote and advance the mission of the Naval Academy by working in conjunction with Academy leadership to identify strategic institutional priorities and by raising, managing and disbursing private gift funds that provide a margin of excellence in support of the nation's premier leadership institution.