Perpetuating Excellence

ANNUAL REPORT 2008

United States Naval Academy
Alumni Association & Foundation

A Message from the Chairmen

The Alumni Association & Foundation continue to serve alumni, parents and friends and support the U.S. Naval Academy on the course of *Perpetuating Excellence*. The U.S. Naval Academy Alumni Association & Foundation had its second highest year of support to the Naval Academy in 2008, despite the drop in investment income and gifts in the second half of the fiscal year.

In Fiscal Year 2008 new commitments and gift receipts each exceeded $30 million. Unlike investment income, which tracks with the markets, gifts decreased slightly with a total just shy of 2007 levels. However, the turbulence we have been experiencing since the close of the fiscal year and the uncertainty of 2009 will impact all future operations.

For 2008, support to the Naval Academy exceeded $29 million and went, in large part, to the Brigade Sports Complex and the new museum displays in Preble Hall.

At the 10th anniversary Distinguished Graduate Awards ceremony this year, we added five more alumni to the roster of previously recognized USNA graduates. Distinguished Graduate Award recipients exemplify excellence through lives of service and teach current midshipmen about the highest ideals of command and citizenship.

Other Alumni Association programs also continue to grow. The web site is constantly evolving, outreach to alumni and friends is expanding and our relationship with the Naval Academy is strengthened.

Alumni Association membership is climbing, now topping 53,000 with an additional 47 corporate members. The Naval Academy is supported by 2,300 Blue & Gold Officers; 75 active graduated class organizations; 101 affiliated and sanctioned chapters worldwide; and 84 national parents clubs.

Thank you for your support in *Perpetuating Excellence* at the Naval Academy, the Alumni Association and the Foundation.

Admiral Carlisle A.H. Trost, USN (Ret.) '53
Chairman, Board of Trustees
United States Naval Academy Alumni Association, Inc.

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

Perpetuating Excellence

The U.S. Naval Academy and the Naval Academy Alumni Association & Foundation remain committed to *Perpetuating Excellence* in their respective endeavors. For the Academy, that means excellence in the moral, mental and physical development of future Navy and Marine Corps officers; recruiting superb students; hiring outstanding professors, military leaders and coaches; providing state-of-the-art facilities; and offering unique and innovative learning opportunities. For the Alumni Association & Foundation, it means honoring alumni accomplishments, providing alumni support and raising private funds to support the Academy and the Brigade.

Alumni and friends of the Naval Academy have played an important role in *Perpetuating Excellence* through their generous private gifts that support facilities and programs that span the moral, mental and physical components of the mission.

The Thornton D. and Elizabeth S. Hooper Brigade Sports Complex, located across the Severn River on Greenbury Point next to the Naval Academy Golf Course, is home to hockey, tennis, golf and rugby. Built with private gifts totaling more than $17 million, the 170,000-square-foot complex was dedicated in October 2007. Modern facilities for individual and team development are paramount for the Academy where athletic competition—whether at the varsity, club or intramural level—is viewed as a means of teaching mental toughness, the will to win and teamwork.

The Halsey Squash Courts Complex is another example of excellence enabled by private gifts. The final phase of the project involved the construction of two international standard courts, renovation of the locker room and new air conditioning for the existing four courts (which replaced the five courts

Sea Trials

An integral part of Plebe Recognition Week, Sea Trials provide a climatic physical and mental challenge to the Plebe class designed to test their teamwork through shared adversity.

in the first phase of the project). Located in the Ted and Michelle Gurnee Squash Wing and designed specifically for squash, the new courts are ASB glass exhibition courts with spectator seating. Navy can now boast the two best squash courts in the country. This $1.3 million complex was funded with private gifts from the Friends of Navy Squash, formed in 2001.

Athletic Excellence

Successful leaders are developed as much on the playing field as in the classroom.

Not new, but in the process of being re-newed—with a combination of appropriated and donated funds—is the Naval Academy Museum at Preble Hall. The ships' gallery and main museum closed at the end of 2007 for structural modernization and the installation of new and improved exhibits. Updated infrastructure, a climate control system, handicap accessible restrooms and new elevators are included in the $13 million structural modernization covered by appropriated funds. Private gifts have afforded the design and installation of new exhibits to include, among other things, high-tech audio-visual displays such as animated battle maps showing the strategic and tactical backgrounds of dozens of battles along with explanations of their importance. These battle videos also will be available on DVD for use by the Naval Academy History Department. The museum is scheduled to reopen in 2009, thanks to the efforts of ten classes who supported the project.

Another historic building in the Yard receiving an update—and marking a significant anniversary this year—is the Naval Academy Chapel. The Chapel turned 100 this year, and private gifts to the Foundation from alumni and friends are supporting the Chapel renovation and various anniversary events. In particular, gifts from the Chapel congregation and from the Class of 1969 have been noteworthy.

The Athletic and Scholarship Programs Division of the Foundation reported a strong year, contributing 62 members from Foundation-sponsored civilian prep schools to the Class of 2012. More than 95 percent of A&SP scholarship students received appointments. For next year's class, 77 students are enrolled in the 21 prep schools, including 22 minority candidates, a high priority for the Naval Academy and by far the highest number ever in the Foundation program.

Private gifts made through the Foundation help support the positions of some of the exceptional members of the Academy faculty. The Corbin A. McNeill '62/USNA Class of 1962 Endowed Chair in Naval Engineering is filled by Professor Mike McCormick; Dr. Michael Shlesinger was appointed to the

Noon Meal Formation

King Hall, the dining hall for the Brigade of Midshipmen, reopened in August after completion of the first renovation project in 53 years.

Kinnear Chair in the Physical Sciences; and Commander Jorge Ortiz-Sotelo, Peruvian Navy (Ret.), was appointed the Dr. Leo A. Shifrin Distinguished Professor in Naval and Maritime History. The Class of 1955 Endowed Faculty Chair in Middle East Studies is filled by Dr. Akbar Ahmed, a world-renowned expert on Islam, cultural anthropologist and former High Commissioner of Pakistan to Great Britain.

Private gifts continue to support study abroad programs. In academic year 2008, 30 midshipmen will study in 12 countries, and other faculty-led programs will provide 92 midshipmen the opportunity to participate in 18 programs in 16 countries.

The 2008 Naval Academy Foreign Affairs Conference (NAFAC), which focused on Latin America, also was funded in part by private gifts: The Burnett NAFAC Endowment, the Olmsted Foundation, Captain Jerold Anderson '64, USNR (Ret.), and the Class of 1960.

This year, a primary focus of the Foundation has been improved engagement of our younger alumni. To that end, the Foundation's Development Division started a First Gift Program to engage first class

Defining Moments

Thornton D. and Elizabeth S. Hooper Brigade Sports Complex

Dedicated in October 2007, the complex illustrates the commitment to physical mission and teamwork by the Naval Academy, the Naval Academy Athletic Association and the Naval Academy Foundation.

Halsey Squash Courts

Improved courts were added to an already robust sports program boasting a 12-court complex featuring international squash courts.

Naval Academy Museum at Preble Hall

The museum offers a prime example of the private-public funding partnership with federal dollars supporting the construction and infrastructure costs and private donations funding the programs and exhibits.

midshipmen in philanthropy for their alma mater. The Class of 2008, the first to participate, responded enthusiastically to this initiative, and more than 64 percent of the class committed to make a gift this year. The effort is led entirely by the class officers, and '08 set a record for having the largest number of donors within a single class in the history of class giving to the Academy. Because of this unparalleled level of commitment, at its five-year reunion, the Class of 2008 will be able to present a gift of more than $150,000 to the Naval Academy, something that has never before been possible.

Whether in the Yard or at other USNA-related venues, *Perpetuating Excellence* is widely evident. Historic Ogle Hall is no exception. The 270-year-old historic building underwent a renovation requiring more than 15 months. The ribbon cutting in early summer marked the completion of numerous improvements, including the addition of an elevator and alterations to the restrooms to make the house fully accessible; enlargement of the patio; enhancement of safety features; upgrades in electrical wiring and plumbing; and the addition of an industrial grade HVAC system; all while retaining the historic architectural integrity and colonial elegance of the building.

As of this report, some additional improvements to the taproom and kitchen continue. Yet even while the building renovation continues, Alumni Association staff are working to grow the programs and services that perpetuate excellence among alumni and midshipmen alike. For example, the *Another Link in the Chain* program forms bonds and relationships between current midshipmen and members of the 50-year class counterpart throughout four years in the Yard and beyond. The midshipmen are buoyed and encouraged by the physical presence and moral support of the senior class, and members of the 50-year class counterpart enjoy working with the midshipmen in their development as future Navy and Marine officers.

Celebrating a decade of Naval Academy alumni recognition, the 2008 Distinguished Graduate Award program honored Rear Admiral Maurice H. Rindskopf '38, USN (Ret.), Admiral Thomas B. Hayward '48, USN (Ret.), Mr. Ralph Hooper '51 and Admiral Leighton W. Smith Jr. '62, USN (Ret.), for lifelong achievement and service to the nation.

The Alumni Association continues to serve and support and expand its programs, services and membership, which now exceeds 53,000 active members. Growth is also evident in career programs, which added a fourth Service Academy Career Conference in Savannah, GA. The additional conference was a terrific success, with 300 candidates and 65 companies participating.

Our web site, www.usna.com, continues to be updated with content and increased functionality. Notable additions this year include many features that help bind alumni together: interactive class maps and an expanded alumni lookup, Real Simple Syndication (RSS) news feeds for news articles, online event reporting, applications for new membership in the Alumni Association and to report a deceased classmate, and much more. The Alumni Association & Foundation is also making an online presence on the popular social networking application Facebook to better reach and communicate with young alumni.

The Alumni Store has an updated look on www.usna.com and provides a revenue source for classes, chapters and clubs through the Shop and Earn program and offers Alumni Association merchandise online.

The Alumni Association continues to "...perpetuate the history, traditions, memories and growth of the Naval Academy..." The U.S. Naval Academy Foundation remains clearly "on mission" to provide a margin of excellence in support of the nation's premier leadership institution. Together, the Naval Academy Alumni Association & Foundation and you—members, donors and friends of the Naval Academy, the Alumni Association & Foundation—play an important role in *Perpetuating Excellence* at the Naval Academy.

Naval Academy Chapel

The Chapel has been a centerpiece for moral and spiritual development of midshipmen for more than a century.

Athletic and Scholarship Programs Division

Athletic excellence and physical mission are supported through scholarships, programs and awards.

First Gift Program

Graduating class members are encouraged to give through a voluntary military payroll allotment.

Historic Ogle Hall

Enhancements have been completed to the Hall, making the headquarters of the Alumni Association accessible to all.

A Message from the Chief Financial Officer

As the Association's Chief Financial Officer and Treasurer, it is my duty to report a true and accurate picture of the financial condition of the two organizations.

Fiscal year 2008 was a year of contrasts: beginning strong and robust; becoming increasingly volatile; and ending in decline and marked by great uncertainty.

Against this backdrop of the extremes, we were able to provide over $29 million in direct and indirect support to the Naval Academy, the second highest level of support in our history. Contribution revenue remained strong, bested only by the previous year, fiscal year 2007.

Investment results were indicative of the general economic conditions. We took a small loss (-0.33%) for the year. While we don't like losses, we believe the investment portfolio is positioned well given our policy objectives and the turbulence we face.

This annual report, presented on behalf of the senior management team, represents our commitment to continue on our mission of *Perpetuating Excellence* at the U.S. Naval Academy.

The consolidated financial statements accurately reflect the organizations' financial position, results of operations and cash flows. The financial information included in this report is prepared by the organizations in accordance with Generally Accepted Accounting Principles (GAAP).

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 or omit any material facts.

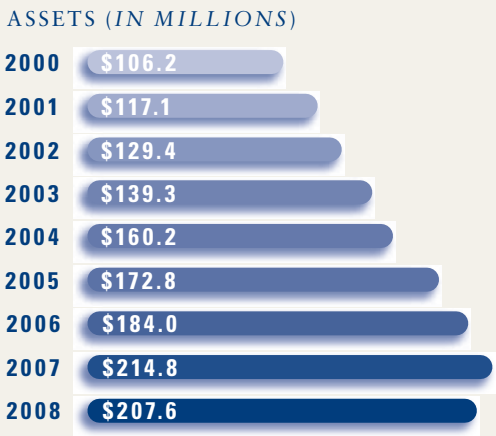
McGladrey and Pullen, LLP, an independent auditor, audited our financial statements and expressed an unqualified opinion thereon. The auditor considered our internal controls to the extent they believe necessary to determine and conduct the audit to render an opinion. Our internal controls are designed to ensure that transactions are authorized, executed and recorded properly.

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

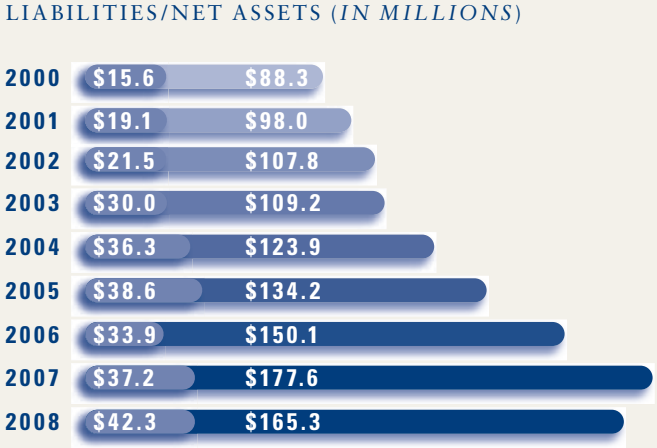
We are committed to you, our alumni, parents and friends, to operate with the utmost fiscal integrity. Thank you for your support.

Henry J. Sanford
Chief Financial Officer and Treasurer

Assets:



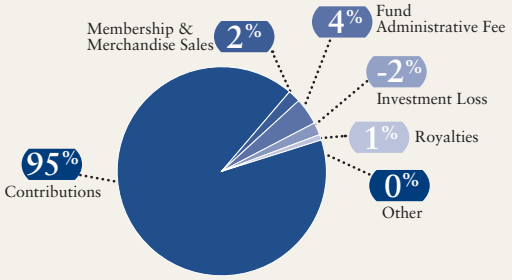
Liabilities:



FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2008

REVENUE $M

Contributions	$30.41
Investment Income	-0.74
Fund Administration Fee	1.26
Membership and Merchandise Sales	0.59
Royalties	0.50
Other	0.01
Total support and revenue	**$32.03**



2008 Revenue: **$32.03 million**

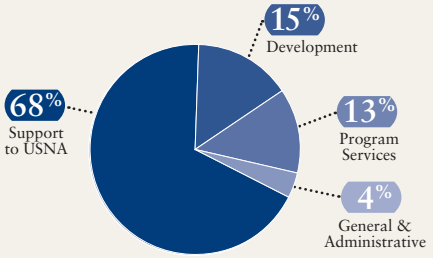
EXPENSES $M

Program Services:

Support to Naval Academy	$29.88
Alumni Publications	1.42
Member Support	2.16
Partnership Marketing	0.58
Alumni Communications	0.87
Career Transitions	0.71
Total program services	**$35.62**

Support Services:

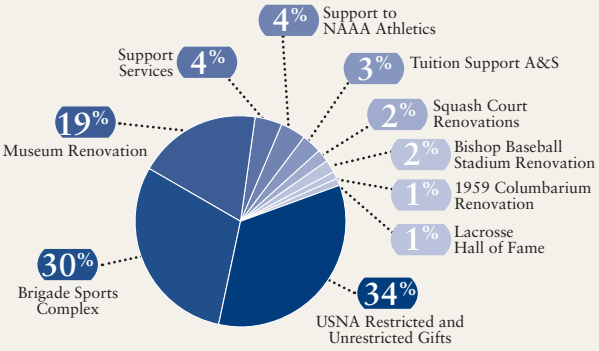
Development	$6.74
General & administrative	1.95
Total support services	**$8.69**
Total expenses	**$44.31**



2008 Expenses: **$44.31 million**

SUPPORT TO USNA $M

Brigade Sports Complex	$8.94
Support services	1.26
Lacrosse Hall of Fame	0.39
Tuition Support A&S	0.80
Bishop Baseball Stadium Renovation	0.64
Squash Court Renovations	0.42
Support to NAAA Athletics	1.22
USNA Restricted and Unrestricted Gifts	10.16
1959 Columbarium Renovation	0.34
Museum Renovation	5.72
Total Support to USNA	**$29.88**



2008 Support to USNA: **$29.88 million**

Financial Highlights

Revenue and gains $M	2002	2003	2004	2005	2006	2007	2008
Contributions	$36.98	$29.86	$41.14	$28.29	$29.71	$34.47	$30.41
Investment income	(2.82)	1.36	9.88	8.14	10.71	22.42	(0.74)
Fund administration fee	1.05	1.17	1.17	0.91	1.06	1.31	1.26
Membership and merchandise sales	0.68	0.68	0.58	0.59	0.60	0.67	0.59
Other	1.16	0.09	2.59	1.33	1.39	2.10	0.51
Total Revenue and Gains	**$37.05**	**$33.16**	**$55.36**	**$39.26**	**$43.47**	**$60.97**	**$32.03**
Expenses $M							
PROGRAMS:							
Support to Naval Academy	$17.10	$20.99	$29.24	$17.89	$15.07	$21.20	$29.88
Alumni publications	0.98	1.05	1.52	1.31	1.27	1.29	1.42
Member support	0.98	1.22	2.01	2.02	2.09	2.05	2.16
Partnership marketing	0.53	0.42	0.46	0.43	0.47	0.55	0.58
Alumni communications	0.44	0.57	0.42	0.75	0.74	0.84	0.87
Career transitions	0.50	0.40	0.53	0.52	0.61	0.64	0.71
Total program expenses	*$20.53*	*$24.65*	*$34.18*	*$22.92*	*$20.25*	*$26.57*	*$35.62*
SUPPORT SERVICES:							
Development	$4.07	$4.99	$4.82	$4.60	$5.65	$5.29	$6.74
General & administrative	2.60	2.19	1.66	1.39	1.65	1.67	1.95
Total support expense	*$6.67*	*$7.18*	*$6.48*	*$5.99*	*$7.30*	*$6.96*	*$8.69*
Total Expenses	**$27.20**	**$31.83**	**$40.66**	**$28.91**	**$27.55**	**$33.53**	**$44.31**

Investment Portfolio Review

OVERVIEW

While the seeds were sown in the years leading up to it, the effects of the housing excesses and credit problems first began to appear in FY08 (July 1, 2007 – June 30, 2008). Several events involving hedge fund failures and financial institutions disclosing losses led to a large increase in volatility and the markets turning negative. Credit and financial markets seemed to stabilize in April and May 2008. However in June a second wave of write downs by financial institutions occurred and the equities markets plummeted, resulting in the worst June for equities markets since the Great Depression. While this marked the end of the fiscal year and the end of the period for this report, the crisis has continued to grow into FY09.

Against this backdrop of volatility and market declines the value of all investments declined -3.2% from $158.4M to $153.3M mainly because of net distributions to fund projects at the Naval Academy and a small investment loss. Shown in the accompanying chart is the value of all investments since the amalgamation on December 31, 1999.

The objective and structure of the 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 82% of the invested funds of the Associations including a majority of the endowments, continues to be managed by the firm, *The Investment Fund for Foundations (TIFF).*

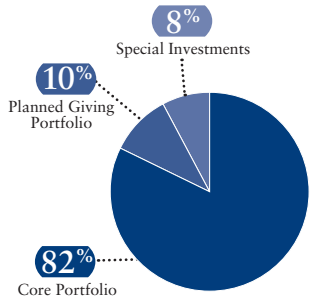


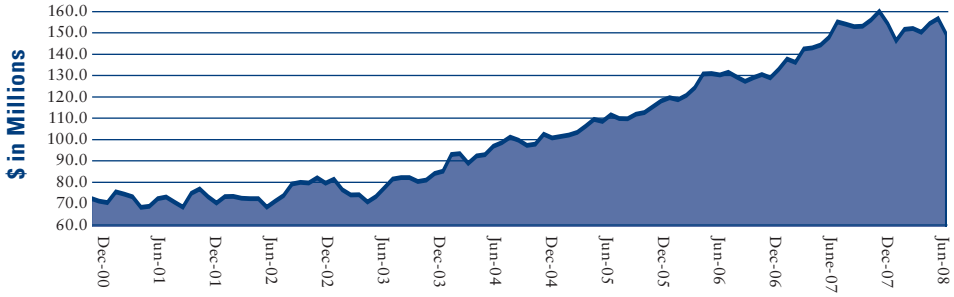
CHART 2 – Investment Portfolios

During the fiscal year the Associations' core portfolio posted a small investment loss of -0.33% net of all fees. While a loss is never welcome, we feel it is respectable given the turbulent markets during the year. This return also exceeded core portfolio's customized benchmark return of -0.63%, and both the median return (-4.07%) for Foundations and Endowments and the median return (-3.04%) of Foundations and Endowments with assets greater than $1 billion as measured by Wilshire Associates Inc.'s Trust Universe Comparison Service (TUCS). This was the third consecutive year the core portfolio has beat its own benchmark return and the core portfolio's three-year average annual return of 9.75% exceeds the TUCS reported median three-year average return of 7.46% for Foundations and Endowments and the median three-year average annual return of 8.46% for Foundations and Endowments with assets greater than $1 billion.

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

The core portfolio's asset allocation as of June 30, 2007 and June 30, 2008 as well as the target policy portfolio are provided in Table 2. As of June 30, 2008, the core portfolio's allocation to private investments continues to be quite small compared to the target. As noted in previous reports it will take several years to become fully invested within private investments because even when

CHART 1 – Value of All Investments (12/1999–6/2008)



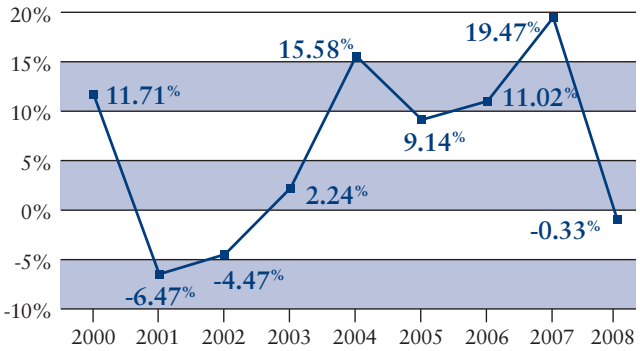


Table 1 – Core Portfolio Returns for Fiscal Years 2000-2008

commitments are made, it usually takes years for the underlying managers to actually ask for the capital. The Associations continued to make progress in this area by adding to the private investments in accordance with the approved targets approved within the investment policy statement. Specifically, the Associations made new commitments to both a private equity and a private realty and resources investment vehicle furthering the core portfolio's progress in those two asset classes. Until the private investment allocations are fully implemented the core portfolio's asset allocation will reflect an overweighting to marketable investments and underweighting to private investments.

	6/30/2007 Actual	6/30/2008 Actual	Policy Portfolio Target
Total Return Assets			
Global Stocks	47.5%	47.8%	32%
Private Equity	2.5%	4.6%	20%
Absolute Return	24.0%	25.1%	19%
High Yield Bonds	1.8%	1.2%	2%
Inflation Hedges			
Resource-Related Stocks	7.8%	4.8%	4%
Marketable Real Estate (REITs)	0.5%	1.2%	2%
Commodities	3.0%	3.1%	2%
Private Realty and Resources	0.0%	0.5%	10%
Deflation Hedges			
Conventional Bonds	2.1%	2.3%	3%
All-Purpose Hedges			
Inflation-Linked Bonds	9.9%	7.7%	6%
Cash Equivalents	0.9%	1.7%	0%
Total	**100%**	**100%**	**100%**

Table 2 – Core and Policy Portfolio Asset Allocation

PLANNED GIFT PORTFOLIO

The planned gift portfolio consists of charitable trusts assets, charitable gift annuity investment accounts and a pooled income fund. SunTrust Bank and its subsidiary Trusco Capital Managements continue to manage this portfolio that represented about 10% of the investments. The planned gift portfolio declined about -15% from $17.5M to $15.0M, during the year mainly due to regular distributions to beneficiaries exceeding the receipt of new planned gifts. 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-one stand-alone investments that do not fit within the core or planned gift portfolios. At fiscal year end, this portfolio made up 8% of all investments. There is a large variation in the types of investments and objectives of these various accounts within the special investment program.

SUMMARY

From a long-term policy perspective, the Associations continued to make progress in moving the core portfolio investment allocation towards the policy portfolio targets. From a short-term perspective, the core portfolio weathered a turbulent year with a very minimal loss and outperformed its benchmark on a relative basis. However, fiscal year 2008 will most be remembered as a watershed period within the financial markets as it marked the turbulent period between very robust returns and market highs and the major downturn in world markets and the unprecedented actions occurring within the financial systems in the first half of fiscal year 2009. While the outlook for fiscal year 2009 is particularly sobering we are hopeful that our good financial condition entering the period, our portfolio's strategic asset allocation and our employment of excellent investment managers will help us weather the rough seas ahead.

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

CONSOLIDATED FINANCIAL REPORT
JUNE 30, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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.

McGladrey & Pullen, LLP

Baltimore, Maryland
October 9, 2008

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 1,886,925	$ 3,336,758
Accounts receivable and other current assets	536,551	498,410
Contributions receivable, net (Note 2)	42,756,853	45,135,409
Investments (Note 3)	153,278,269	158,404,556
Property and equipment, net (Notes 5, 12 and 13)	6,054,561	4,423,731
Interest in third party trusts	3,122,740	3,035,115
Total assets	$ 207,635,899	$ 214,833,979
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 12)	$ 2,119,338	$ 2,272,743
Deposits on life memberships (Note 6)	589,408	590,310
Class savings accounts	2,127,797	2,103,107
Deferred income and deposits	902,661	943,095
Note payable (Note 7)	10,000,000	2,500,000
Loans payable (Note 7)	1,400,000	3,000,000
Split-interest agreements	11,180,214	12,347,219
Accrued key employees' retirement (Note 9)	1,098,475	1,044,413
Unamortized life memberships deferred revenue (Note 6)	12,914,192	12,451,309
Total liabilities	$ 42,332,085	$ 37,252,196
Net assets		
Unrestricted	10,409,579	12,721,106
Temporarily restricted (Note 10)	86,483,094	102,274,665
Permanently restricted (Note 11)	68,411,141	62,586,012
Total net assets	$ 165,303,814	$ 177,581,783
Commitments (Notes 1, 12 and 13)		
Total liabilities and net assets	$ 207,635,899	$ 214,833,979

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 4)	$ 7,913,340	$ 18,981,487	$ 3,511,652	**$ 30,406,479**
Membership dues	274,031	—	—	**274,031**
Life member amortization (Note 6)	257,513	—	—	**257,513**
Merchandise sales	60,585	—	—	**60,585**
Net investment income (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 8)	(13,385)	(2,947,928)	2,961,313	**—**
Net assets released from restrictions (Note 8)	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 4)	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 STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions (Note 4)	$ 8,304,348	$ 19,901,546	$ 6,260,243	**$ 34,466,137**
Membership dues	296,418	—	—	**296,418**
Life member amortization (Note 6)	278,988	—	—	**278,988**
Merchandise sales	94,607	—	—	**94,607**
Net investment income (Note 3)	5,666,570	16,398,445	355,244	**22,420,259**
Publications and advertising	199,884	—	—	**199,884**
House activities	110,105	—	—	**110,105**
Career transition services	520,073	—	—	**520,073**
Homecoming and conference fees	114,088	—	—	**114,088**
Fund administrative fee	1,305,475	—	—	**1,305,475**
Royalties	396,469	—	—	**396,469**
Travel income	83,887	—	—	**83,887**
Other	562,332	—	—	**562,332**
Other support:				
Change in value of split-interest agreements	(95,944)	519,098	(298,424)	**124,730**
Changes in donors' intent (Note 8)	19,676	364,651	(384,327)	—
Net assets released from restrictions (Note 8)	20,463,048	(20,463,048)	—	—
Total revenue and gains	**$ 38,320,024**	$ 16,720,692	$ 5,932,736	**$ 60,973,452**
Expenses:				
Program services:				
Support to the Naval Academy (Note 4)	21,202,145	—	—	**21,202,145**
Alumni publications	1,287,354	—	—	**1,287,354**
Membership support	2,047,466	—	—	**2,047,466**
Partnership marketing	554,661	—	—	**554,661**
Alumni communications	841,145	—	—	**841,145**
Career transitions	644,278	—	—	**644,278**
Total program services	$ 26,577,049	—	—	**$ 26,577,049**
Supporting services:				
Development	5,286,163	—	—	**5,286,163**
General and administrative	1,666,070	—	—	**1,666,070**
Total supporting services	$ 6,952,233	—	—	**$ 6,952,233**
Total expenses	$ 33,529,282	—	—	**$ 33,529,282**
Change in net assets	4,790,742	16,720,692	5,932,736	**27,444,170**
Net assets at beginning of year	7,930,364	85,553,973	56,653,276	**150,137,613**
Net assets at end of year	$ 12,721,106	$102,274,665	$ 62,586,012	**$177,581,783**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ (12,277,969)	$ 27,444,170
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	338,207	338,902
Change in discount and allowance on contributions receivable	(834,099)	3,409,558
Amortization of life memberships	(257,512)	(278,988)
Net realized and unrealized (gains) losses on investments	5,336,117	(18,836,607)
Split-interest agreements	(1,167,005)	1,511,612
Interest in third party trusts	320,542	(355,244)
Net (gains) losses on sales of property and equipment	12,298	(350,574)
Contributed securities	(3,663,361)	(6,111,612)
Contributions restricted for long-term investment	(5,226,938)	(8,625,806)
Changes in assets and liabilities:		
Increase in assets:		
Accounts receivable and other current assets	(38,141)	(40,019)
Contributions receivable	(654,229)	(4,059,123)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(153,405)	625,009
Deposits on life memberships	(902)	27,470
Class savings accounts	24,690	294,570
Deferred income and deposits	(40,434)	113,632
Accrued key employees' retirement	54,062	200,823
Unamortized life memberships deferred revenue	720,395	740,403
Net cash used in operating activities	(17,507,684)	(3,951,824)
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,981,335)	(436,827)
Proceeds from sales of property and equipment	—	537,366
Purchase of investments	(28,109,246)	(48,371,775)
Proceeds from sales or maturities of investments	31,562,777	45,651,176
Net cash (used in) provided by investing activities	1,472,196	(2,620,060)
Cash Flows From Financing Activities		
Proceeds from contributions restricted for long-term investment	8,685,655	6,417,026
Proceeds from issuance of note payable	7,750,000	3,500,000
Principal payments on loans payable	(1,600,000)	(1,000,000)
Principal payments on note payable	(250,000)	(2,500,000)
Net cash provided by financing activities	14,585,655	6,417,026
Net decrease in cash and cash equivalents	(1,449,833)	(154,858)
Cash and cash equivalents at beginning of year	3,336,758	3,491,616
Cash and cash equivalents at end of year	$ 1,886,925	$ 3,336,758
Supplemental Disclosure Of Cash Flow Information		
Cash paid during year for interest	$ 414,655	$ 226,743
Supplemental Schedule Of Noncash Investing And Financing Activities		
Contributed securities	$ 3,663,361	$ 6,111,612
Other non-cash assets	$ 5,738,189	$ 1,486,820
Purchases of property and equipment included in accounts payable and accrued expenses	$ 133,606	$ 145,661

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 8).

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 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 and $2,754,877 at June 30, 2008 and 2007, respectively, are carried at fair value.

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, 2008 and 2007.

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, 2008 and 2007, as adjusted for cash receipts, cash distributions and security distributions through June 30, 2008 and 2007. The Associations believe that the carrying amount for these investments is a reasonable estimate of fair value as of June 30, 2008 and 2007. These investments consist of approximately 1% of total investments as of June 30, 2008 and 2007. 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, 2008, the Associations had uncalled commitments of approximately $23,000,000. Such commitments are generally called over a period of years.

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. Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had an adverse impact on many investment portfolios. As a result, it is estimated that the June 30, 2008 value of the Associations' investments incurred a decline in fair value as of September 30, 2008 of approximately 10%. In addition, the liquidity of certain non-readily marketable investments is less than it has been historically.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies *(Continued)*

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 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 ($1,983,482 and $1,698,264 at June 30, 2008 and 2007, respectively) and cash and cash equivalents ($144,314 and $404,843 at June 30, 2008 and 2007, 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 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.

Split-interest agreement: 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies *(Continued)*

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 $153,033 and $1,158,905 during the years ended June 30, 2008 and 2007, respectively. The fair value of the assets held for all split-interest agreements was $15,889,601 and $18,714,067 as of June 30, 2008 and 2007, 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 3.2% 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 lnternal 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, 2008 and 2007 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 *(Continued)*

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.

Recent accounting pronouncement: In July 2006, the 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, accenting in interim periods, disclosure, and transition. In February 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, 2007. The Associations are required to adopt FIN 48 in their 2009 annual consolidated financial statements and management is in the process of determining the effect of FIN 48 on the Associations' consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This Statement is effective for fiscal years beginning after November 15, 2007. The Associations are currently assessing the potential effect of SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Associations are currently assessing the potential effect of SFAS No. 159 on its consolidated financial position, results of operations and cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Contributions Receivable

Contributions receivable at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	$ 15,535,573	$ 17,626,902
One year to five years	30,638,990	30,604,456
Over five years	8,257,081	9,412,941
	54,431,644	57,644,299
Less allowance for uncollectible amounts	(6,437,382)	(6,775,809)
Less discount to present value (5%)	(5,237,409)	(5,733,081)
	$ 42,756,853	$ 45,135,409

Note 3. Investments

Investments at fair value at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Cash and cash equivalents	$ 1,521,814	$ 1,425,255
Share certificates	1,302,196	835,934
Debt securities bonds and notes	2,230,452	1,519,380
Equity securities stocks	801,126	1,138,927
Total cash, cash equivalents, certificates and securities	5,855,588	4,919,496
Mutual funds		
Fixed income and debt mutual funds	11,262,775	12,122,717
Equity mutual funds	19,433,204	24,428,896
Combined fixed income and equity funds	329,243	302,508
Multi-asset mutual funds	97,672,604	100,451,809
Total mutual funds	128,697,826	137,305,930
Other investments		
Limited partnerships	14,475	23,800
Private equity funds	5,927,898	3,491,491
Private realty and resources funds	875,411	360,430
Hedge funds	10,860,848	11,333,438
Charitable life insurance policies	1,046,223	969,971
Total other investments	18,724,855	16,179,130
	$ 153,278,269	$158,404,556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments *(Continued)*

Net investment income for the years ended June 30, 2008 and 2007 is as follows:

	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)**

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 1,036,690	$ 2,695,193	$ —	$ 3,731,883
Net realized gains	1,210,469	3,098,280	—	4,308,749
Net unrealized gains	3,388,276	11,139,582	355,244	14,883,102
Less management fees	(143,623)	(359,852)	—	(503,475)
	5,491,812	16,573,203	355,244	22,420,259
Transfer to return corpus	174,758	(174,758)	—	—
Net investment income	$ 5,666,570	$ 16,398,445	$ 355,244	$ 22,420,259

A few 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 investment income 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 investment income that had been previously reclassified as temporarily restricted is transferred back to unrestricted.

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 2008.

Note 4. In-Kind Contributions

The Foundation contributes the use of its houses to the Naval Academy Athletic Association valued at an annual amount of $208,013 and $155,924 in 2008 and 2007, 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 $188,465 and $112,651 in 2008 and 2007, respectively. During 2007, the Naval Academy Athletic Association started renovations on one of the Foundation's houses. The cost of these renovations is included in the Associations' 2007 construction in progress and recognized as an in-kind contribution of $90,000 in 2007. The project was completed in 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2008 and 2007, the Associations received non-cash donations of assets for use by the Naval Academy valued at $5,738,189 and $1,486,820, 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 5. Property and Equipment

Property and equipment at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Land	$ 526,578	$ 526,578
Buildings and improvements	7,253,136	5,273,438
Furniture and equipment	793,638	933,084
Computer equipment and software	484,118	532,396
Construction in progress	61,003	488,912
	9,118,473	7,754,408
Less accumulated depreciation and amortization	(3,063,912)	(3,330,677)
	$ 6,054,561	$ 4,423,731

Depreciation expense was $338,207 and $338,902 for the years ended June 30, 2008 and 2007, respectively.

Note 6. 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 lifetime 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, 2008 and 2007, the Alumni Association held $589,408 and $590,310, respectively, of midshipmen life membership fees. After graduation, the fees are reclassified as unamortized life memberships deferred revenue and are amortized over an assumed 61-year life expectancy of the graduating midshipmen. During the years ended June 30, 2008 and 2007, $570,830 and $546,640, respectively, relating to the graduating classes of 2008 and 2007 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 from the time of graduation.

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. The full future costs to service life memberships are not accrued as a liability, because the amount could change significantly based on management decisions.

Note 7. Note and Loans Payable

The Foundation had 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 unrestricted projects. The Foundation's net draws in 2008 totaled $4,950,000. Principal is due on demand. Interest, which is due in monthly installments, is based on the 30-day LIBOR index rate plus 0.6%. At June 30, 2008 and 2007, the 30-day LIBOR index rate was 2.46% and 5.32%, respectively.

The note is guaranteed by the Naval Academy Athletic Association, Inc. Interest expense of $277,552 and $82,189 was recorded during the years ended June 30, 2008 and 2007, respectively. The outstanding balance of this note was $7,450,000 and $2,500,000 as of June 30, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Notes and Loan Payable ***(Continued)***

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 2008, the Associations borrowed $2,800,000, of which $250,000 was repaid during 2008. 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 $26,383 and $4,554 was recorded during the years ended June 30, 2008 and 2007, respectively. The outstanding balance of this note was $2,550,000 as of June 30, 2008. There was no outstanding balance on this note as of June 30, 2007.

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 $81,200 and $129,994 was recorded during the years ended June 30, 2008 and 2007, respectively. The Foundation repaid $1,600,000 and $1,000,000 of the principal in 2008 and 2007, respectively. The outstanding balance of this loan at June 30, 2008 and 2007 was $1,400,000 and $3,000,000, respectively.

Note 8. Net Assets Released From Restrictions and Changes In Donors' Intent

Net assets of $31,292,025 and $20,463,048 for the years ended June 30, 2008 and 2007, 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, 2008 represent reclassifications of $13,385 from unrestricted net assets and $2,947,928 from temporarily restricted net assets to permanently restricted net assets. Amounts shown as changes in donors' intent for the year ended June 30, 2007 represent reclassifications of $19,676 to unrestricted net assets and $364,651 to temporarily restricted net assets from permanently restricted net assets.

Note 9. 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, 2008 and 2007, the Alumni Association made contributions of $309,340 and $289,762, 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.

At June 30, 2008 and 2007, the Alumni Association's liability for these plans was $1,098,475 and $1,044,413, respectively. Total retirement expense under these plans for 2008 and 2007 was $101,319 and $95,710, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. 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.

	2008	2007
Naval Academy Centers of Excellence:		
Academic	**$ 27,708,455**	$ 36,929,377
Admissions	**6,546,246**	6,807,382
Athletics	**14,181,240**	20,035,156
Character (ethics)	**8,667,896**	8,517,902
Leadership	**11,713,915**	10,381,234
Support to the Naval Academy not yet assigned to a center of excellence	**3,811,561**	5,081,721
Purpose restricted assets	**72,629,313**	87,752,772
Time restricted assets	**13,853,781**	14,521,893
Total temporarily restricted net assets	**$ 86,483,094**	$ 102,274,665

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2008 and 2007 are invested to fund the following:

	2008	2007
Endowments supporting U.S. Naval Academy	**$ 59,175,089**	$ 53,603,535
Endowments supporting athletics and scholarship	**5,988,891**	6,309,430
Endowments supporting operations	**3,247,161**	2,673,047
Total permanently restricted net assets	**$ 68,411,141**	$ 62,586,012

Note 12. Operating Leases

The Associations entered into several lease agreements for office equipment. Future minimum lease payments under noncancelable operating leases as of June 30, 2008, are due as follows:

Years Ending June 30	Operating Leases
2009	$ 68,331
2010	59,220
2011	36,453
2012	864
Total minimum lease payments	$ 164,868

The Associations' rental expense was $41,863 and $42,626 for the years ended June 30, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Construction in Progress

The Associations started a second phase of renovations on historic Ogle Hall during the year ended June 30, 2008. Signed contracts associated with this project as of June 30, 2008 are $90,025 and the cost of the second phase of renovations is estimated to be $600,000. Costs paid to date of $61,003 are included in property and equipment as construction in progress (see Note 5).

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

Baltimore, Maryland
October 9, 2008

STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	$ 516,402	$ 1,276,817
Accounts receivable and other current assets	433,645	408,594
Contributions receivable, net	2,852,082	4,131,495
Investments	59,701,941	63,899,021
Property and equipment, net	3,058,264	1,442,527
Interest in third party trusts	408,165	—
Intercompany receivables	87,633	332,901
Total assets	$ 67,058,132	$ 71,491,355
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,452,783	$ 1,407,645
Deposits on life memberships	589,408	590,310
Class savings accounts	2,127,797	2,103,107
Deferred income and deposits	888,754	930,618
Split-interest agreements	1,668,880	2,012,874
Accrued key employees' retirement	1,098,475	1,044,413
Unamortized life memberships	12,914,192	12,451,309
Total liabilities	$ 20,740,289	$ 20,540,276
Net assets		
Unrestricted	8,051,588	9,826,817
Temporarily restricted	18,283,554	21,479,759
Permanently restricted	19,982,701	19,644,503
Total net assets	$ 46,317,843	$ 50,951,079
Total liabilities and net assets	$ 67,058,132	$ 71,491,355

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	$ 268,391	$ 2,357,350	$ 139,362	$ 2,765,103
Membership dues	274,031	—	—	274,031
Life member amortization	257,513	—	—	257,513
Merchandise sales	60,585	—	—	60,585
Net investment income (losses)	280,723	(298,620)	—	(17,897)
Publications and advertising	218,538	—	—	218,538
House activities	3,162	—	—	3,162
Intercompany support	1,393,568	—	—	1,393,568
Career transition services	721,232	—	—	721,232
Homecoming and conference fees	88,542	—	—	88,542
Royalties	497,266	—	—	497,266
Travel income	61,680	—	—	61,680
Other	84,034	—	—	84,034
Other support:				
Change in value of split-interest agreements	(245,408)	(21,394)	(1,664)	(268,466)
Changes in donors' intent	—	(66,277)	200,500	134,223
Net assets released from restrictions	5,167,264	(5,167,264)	—	—
Total revenue and gains	9,131,121	(3,196,205)	338,198	6,273,114
Expenses:				
Support to the Naval Academy	4,815,560	—	—	4,815,560
Audit and accounting	52,715	—	—	52,715
Awards and gifts	15,851	—	—	15,851
Bad debt expense	299,261	—	—	299,261
Conferences	154,127	—	—	154,127
Cost of goods	38,616	—	—	38,616
Depreciation	170,167	—	—	170,167
Donor cultivation	327	—	—	327
Equipment rental	156,774	—	—	156,774
Insurance	84,851	—	—	84,851
Legal fees	222,076	—	—	222,076
Licenses	102,460	—	—	102,460
Membership dues	10,446	—	—	10,446
Miscellaneous	30,325	—	—	30,325
Occupancy	252,988	—	—	252,988
Postage and shipping	200,839	—	—	200,839
Printing and publications	591,016	—	—	591,016
Professional and contract services	650,400	—	—	650,400
Salaries and benefits	2,968,268	—	—	2,968,268
Shared information management	(257,996)	—	—	(257,996)
Supplies	65,395	—	—	65,395
Telephone	87,709	—	—	87,709
Training	54,000	—	—	54,000
Travel and transportation	140,175	—	—	140,175
Total expenses	$10,906,350	—	—	10,906,350
Change in net assets	(1,775,229)	(3,196,205)	338,198	(4,633,236)
Net assets at beginning of year	9,826,817	21,479,759	19,644,503	50,951,079
Net assets at end of year	$ 8,051,588	$18,283,554	$19,982,701	$ 46,317,843

STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	**$ 1,370,523**	$ 2,059,941
Accounts receivable and other current assets	**102,906**	89,816
Contributions receivable, net	**39,904,771**	41,003,914
Investments	**93,576,328**	94,505,535
Property and equipment, net	**2,996,297**	2,981,204
Interest in third party trusts	2,714,575	3,035,115
Total assets	**$140,665,400**	**$143,675,525**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 666,555**	$ 865,098
Deferred income	**13,907**	12,477
Notes payable	**10,000,000**	2,500,000
Loan payable	**1,400,000**	3,000,000
Split-interest agreements	**9,511,334**	10,334,345
Intercompany payables	**87,633**	332,901
Total liabilities	$ 21,679,429	$ 17,044,821
Net assets		
Unrestricted	**7,372,788**	8,268,817
Temporarily restricted	**63,184,743**	75,420,378
Permanently restricted	**48,428,440**	42,941,509
Total net assets	**118,985,971**	126,630,704
Total liabilities and net assets	**$140,665,400**	$143,675,525

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	$ 8,181,548	$16,087,537	$ 3,372,291	$27,641,376
Fund administrative fee	1,259,322	—	—	1,259,322
Net investment losses	(398,607)	(1,500)	(320,539)	(720,646)
Intercompany support	(1,393,568)	—	—	(1,393,568)
Other	2,871	—	—	2,871
Other support:				
Change in value of split-interest agreements	(321,360)	(251,005)	(325,633)	(897,998)
Changes in donors' intent	(10,784)	(2,884,252)	2,760,813	(134,223)
Net assets released from restrictions	25,186,416	(25,186,416)	—	—
Total revenue and gains	32,505,838	(12,235,636)	5,486,932	25,757,134
Expenses:				
Support to the Naval Academy	25,065,309	—	—	25,065,309
Audit and accounting	64,119	—	—	64,119
Awards and gifts	27,237	—	—	27,237
Bad debt expense	1,927,742	—	—	1,927,742
Conferences	69,091	—	—	69,091
Consulting–IDC	479,713	—	—	479,713
Depreciation	180,338	—	—	180,338
Donor cultivation	110,080	—	—	110,080
Equipment rental	28,670	—	—	28,670
Insurance	23,139	—	—	23,139
Legal fees	45,643	—	—	45,643
Membership dues	11,218	—	—	11,218
Miscellaneous	233,348	—	—	233,348
Occupancy	52,741	—	—	52,741
Postage and shipping	83,384	—	—	83,384
Printing and publications	118,267	—	—	118,267
Professional and contract services	492,762	—	—	492,762
Salaries and benefits	3,940,613	—	—	3,940,613
Shared information management	257,995	—	—	257,995
Supplies	39,306	—	—	39,306
Telephone	—	—	—	—
Training	30,490	—	—	30,490
Travel and transportation	120,662	—	—	120,662
Total expenses	33,401,867	—	—	33,401,867
Change in net assets	(896,029)	(12,235,636)	5,486,932	(7,644,733)
Net assets at beginning of year	8,268,817	75,420,378	42,941,509	126,630,704
Net assets at end of year	$ 7,372,788	$ 63,184,742	$ 48,428,441	$118,985,971

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(July 1, 2007 – June 30, 2008)

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

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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.

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