making HEADWAY

2010 Annual Report

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


YP 687
YP 687

a message from the **CHAIRMEN**

...generous gifts from our alumni and friends of the Academy—parents, donors and corporations—sustained and buoyed the Alumni Association and the Foundation when waters were rough.

The United States Naval Academy Alumni Association and the Foundation are committed to serving Academy alumni, parents and friends and to supporting the Naval Academy. Fiscal year 2010 was primarily focused on dealing with the challenges we faced in the previous year. Both organizations are making substantial progress, and our service to those we support is as strong as ever.

By taking a number of steps to ensure fiscal stability, we realized gains in both assets and total revenue. We were also able to reduce debt and improve our financial position, resulting in a positive end-of-year financial balance. We expect 2011 to show slow but steady improvement.

We owe a special debt of gratitude to 40 generous donors who stepped up to fill the gap left when a major pledge was withdrawn. Their extraordinary support, along with continued generous gifts from alumni and friends of the Academy—parents, donors and corporations—sustained and buoyed the Alumni Association and the Foundation when waters were rough. We are grateful that so many believe in the Academy and are willing to support those who serve.

Alumni Association membership is now 55,340 strong, an increase of more than 840 members. The Naval Academy is supported by 2,243 Blue & Gold Officers, 77 active class organizations, 101 affiliated and sanctioned chapters and 84 national parents clubs.

Each year, we take stock of our challenges and strengths, our gains and our losses, and we develop strategies to keep us moving forward. Fiscal year 2010 was a testament to our ability to navigate through a year of stormy seas.

We are committed to *Making Headway*, and we look confidently to 2011 as we further the missions of the Alumni Association and the Foundation.

Thank you for your generous support.

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

Vice Admiral John R. Ryan '67, USN (Ret.)
Chairman, Board of Directors
United States Naval Academy Foundation, Inc.

a message from the PRESIDENT AND CEO

With continued support from alumni and friends, our mission to serve the Academy and its alumni will remain stalwart.

The United States Naval Academy Alumni Association and Foundation are clearly in a better fiscal position than they were at this time last year. Fiscal year 2010 was in part about stabilizing our finances in a continued backdrop of economic uncertainty. It was also about moving the organization forward—*Making Headway* toward a stronger, sustainable enterprise.

We thank the many alumni who gave us their feedback via an alumni member survey conducted in spring and summer 2009. Your recommendations played an important role in fiscal year 2010 as we reorganized the Alumni Association and Foundation in order to streamline operations while continuing to perform important services. These actions have helped ensure our financial stability and our organizational efficiency. We also thank the alumni, parents and friends who supported and sustained us—especially 40 special donors who helped us repay over $9 million in debt.

This year, the Academy welcomed a new Superintendent, as Vice Admiral Michael Miller '74, USN, succeeded Vice Admiral Jeffrey L. Fowler '78, USN, as the 61st Superintendent of USNA. Vice Admiral Miller and his leadership team have continued the strong partnership we attained with Vice Admiral Fowler, we are making sound decisions and developing strategies that will help us continue *Making Headway* in support of our Academy.

The board leadership at the Alumni Association and Foundation also changed this year; I am pleased to work closely with our two new chairmen: Admiral Steve Abbot '66 and Vice Admiral John Ryan '67. Further, I am working with the Alumni Association Plan 2020 Strategic Committee under the leadership of Vice Admiral Bob Dunn '51, USN (Ret.), and the Foundation/Naval Academy strategic planning group to develop appropriate strategic priorities for both enterprises going forward.

In fiscal year 2010, support to the Naval Academy totaled more than $12 million, which was used in support of critical areas designated by the Superintendent and his leadership team. Giving to the Annual Fund totaled more than $8.2 million, surpassing fiscal year 2009, and we again saw an increase in the number of corporations providing philanthropic support to the Academy. An impressive 55 percent of the members of the Class of 2010, led by class president Ensign Robby Battle, USN, participated in the *First Gift* program by pledging their financial support upon graduation. With continued support from alumni and friends, our mission to serve the Academy and its alumni will remain stalwart.

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 12th year, the award honors living graduates for demonstrating a commitment to a lifetime of service to the Navy, Marine Corps and the nation.

All in all, 2010 was a good year for the Alumni Association and Foundation. Fiscal year 2011 will see our continued prudence as we support our mission and review strategies to enhance services to alumni and support to the Academy.

We are *Making Headway* thanks to the unwavering commitment of our alumni, parents and friends who believe in our important and enduring missions.

Byron Marchant '78
President and CEO

making HEADWAY

The mission of the United States Naval Academy is "to develop midshipmen morally, mentally and physically and to imbue them with the highest ideals of duty, honor and loyalty in order to graduate leaders who are dedicated to a career of naval service and have the potential for future development in mind and character to assume the highest responsibilities of command, citizenship and government."

The United States Naval Academy Foundation is committed to supporting, promoting and advancing that mission so that every member of the Brigade of Midshipmen has rich and meaningful experiences in order to develop as a leader of character. We work in conjunction with Academy leadership to identify strategic priorities and, through private fundraising, provide a "margin of excellence" for our nation's premier leadership institution and the fine young men and women who are preparing to become exemplary officers in the United States Navy and Marine Corps.

While the Foundation raises funds in support of the Academy, the United States Naval Academy Alumni Association supports the Academy by encouraging outstanding young men and women to attend the Naval Academy and by serving its alumni through activities, programs and events that bind them to each other and to the alma mater.

Private support raised during fiscal year 2010 was key to *Making Headway* as we navigated in the wake of the nation's economic downturn. While federal appropriations fund the Academy's core program components, private funds provide a broad spectrum of programs and facilities that enhance the experiences of the Brigade of Midshipmen and better prepare them to become leaders in the Navy and Marine Corps. Athletic programs, study abroad opportunities, project-based learning programs and other initiatives—all part of the "margin of excellence" funded through private giving—are invaluable additions to the core program. They make the United States Naval Academy one of the world's premier academic *and* leadership institutions. Private gifts do not replace taxpayer dollars; rather, they enhance the experience of midshipmen and create opportunities that help attract exceptional young men and women to the Academy.

Funding priorities for fiscal year 2010 included the Annual and Parents Fund, the Academic Center, Admissions Excellence, International Programs, the Athletic Excellence Fund and several other programs and projects. The Foundation's ability to fund these priorities improved somewhat during this fiscal year because of the generosity of alumni, parents, friends and corporate partners as well as a thoughtful redesign of our organization, allowing us to significantly cut operating costs.

The highlights of the enterprise redesign included aligning its functions around the core competencies of communication, engagement and fundraising; sharing services across the enterprise; and adjusting expenditures across the board.

Fiscal year 2010 assets were up 10 percent (due largely to a gain in our investment portfolios). Liabilities were reduced by

23 percent. Through strong expense control and improved revenue performance, we ended the year with a positive budget surplus of $1.8 million.

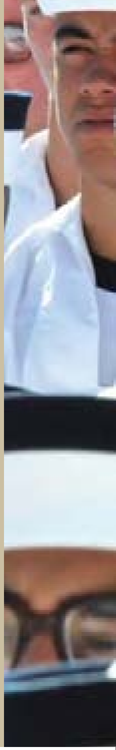
The Naval Academy's Strategic Plan 2020 was developed during fiscal year 2010 in active partnership with leaders at the Alumni Association and Foundation. The result of a thorough assessment of the Academy's current and future positions as the Navy's flagship institution, the Strategic Plan 2020 calls for substantial financial support from both public and private sources to implement its objectives. Maintaining the link between the Academy's strategic priorities and initiatives for which the Foundation solicits private gifts will remain critically important to the Foundation's ongoing success.

Two public-private projects funded during fiscal year 2010 are already helping to further the Academy's mission. Thanks to a generous donation from the Class of 1959 via the Foundation, the U.S. Naval Academy Columbarium began its first upgrade since its construction in 1987. An oratory has been constructed to replace the tenting in order to provide a private, sheltered location for conducting inurnment ceremonies.

A generous corporate gift from Science Applications International Corporation (SAIC) and gifts from other private donors supported the Academy's new Center for Cyber Security Studies. The Center, established to fulfill the Navy's increased focus on cyber security and cyber warfare, will enhance the educational opportunities available to midshipmen, faculty and staff and serve as a center for innovation and learning.

During fiscal year 2010, there were many other positive signs to indicate the Alumni Association and Foundation are *Making Headway*.

The Annual Fund, supported by alumni and friends of the Academy who make a yearly unrestricted contribution to meet both immediate and emerging needs of the Brigade of Midshipmen, continues to have strong support. We concluded the fiscal year with $8.5 million in unrestricted giving from Annual Fund donors. Overall, donors contributed $27 million in gifts during fiscal year 2010, up from the $24.6 million contributed in 2009.



The members of the Class of 2010 made a strong showing during the third year of the *First Gift* program. Entirely voluntary and dependent upon class leadership and peer-to-peer solicitation, the *First Gift* is an opportunity for graduating midshipmen to philanthropically support their alma mater via the military payroll allotment program. Fifty-five percent of the members of the Class of 2010 pledged their support.

As always, parents continued to play a major role in our success by contributing $1.35 million during this fiscal year. Nearly 1,400 made new charitable commitments, and 50 parents joined the President's Circle for the first time, bringing the total number of parents in the Foundation's premier leadership giving society to 227.

The Enterprise Recovery Plan, known as TERP, was a particularly heartening fundraising effort aimed at making up for the loss of a major pledge during the previous fiscal year. Despite the fact that many individuals also suffered financial loss during the economic downturn, 40 donors generously stepped forward with gifts and pledges amounting to more than $9 million. Their commitment demonstrates the true spirit of philanthropy.

Additional highlights during fiscal year 2010 include several class gifts amounting to $1.8 million in restricted gifts and $476 thousand in unrestricted gifts for existing as well as new programs. Corporations and foundations increased their support for Science, Technology, Engineering and Mathematics (STEM) summer camps, minority admissions outreach and international programs, and new planned giving commitments of more than $7 million were received.

MAKING HEADWAY AT HOME AND AWAY

On the home front, the Athletic & Scholarship Programs (A&SP) Division reported a strong year in Prep School recruitment. The Class of 2014 had 62 candidates, including 46 men and 16 women, 22 of whom are recruited athletes, and 26 are minorities. With continued support of the Athletic Excellence Fund, administered by A&SP, the Academy continues to be competitive in its NCAA Division I programs and at the club sport level.

Additionally, in response to a $1.4 million request for athletic support from the Superintendent


and the Naval Academy Athletic Association, the Foundation trustees responded with personal donations totaling more than enough to close the gap for this much needed support.

In keeping with the Academy's focus on developing in each midshipman an appreciation for global and cross-cultural dynamics, the Academy's international programs grew with the help of funds raised by the Foundation. This year, over the summer, academic year, and traditional holiday breaks, more than 475 midshipmen studied in or visited more than 35 countries.

In a special ceremony before the entire Brigade of Midshipmen on 16 April, then-Superintendent Vice Admiral Jeffrey L. Fowler '78, USN, and Admiral Steve Abbot '66, USN, (Ret.), chairman of the Board of Trustees of the U.S. Naval Academy Alumni Association, honored five Naval Academy graduates with the United States Naval Academy Alumni Association Distinguished Graduate Award. The 2010 recipients were David J. Dunn '55, Admiral Leon A. Edney '57, USN (Ret.); Rear Admiral Thomas C. Lynch '64, USN (Ret.); Admiral J. Paul Reason '65, USN (Ret.); and General Carlton W. Fulford Jr. '66, USMC (Ret.). Each has demonstrated commitment to a lifetime of service and has made significant contributions to the Navy, the Marine Corps and the nation.

Naval Academy alumni like those who were honored in April are the reason the United States Naval Academy Alumni Association and Foundation exist. We help attract the next generation of outstanding young people who aspire to serve their country as officers in the Navy and Marine Corps. We help fund programs, centers, lectures, visiting professors, study abroad programs, athletics and much more for the fine young people who attend the Academy today. And we serve eight generations of alumni by connecting them to today's midshipmen and each other. Finally, we reach thousands upon thousands of parents and friends of the Academy who help us perpetuate the traditions and history of the place from which our midshipmen first set sail.

We are *Making Headway*. Fiscal year 2010 will be remembered as a year of looking forward and of adjusting our course where necessary. Mostly, however, it will be remembered for the tremendous generosity of those who believe in and support the Naval Academy through the Alumni Association and Foundation.

a message from the CHIEF FINANCIAL OFFICER

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

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

Overall, fiscal year 2010 was a good year. Having experienced financial losses due to the nation's economic downturn, we were able to turn our losses around by engaging in a comprehensive recovery effort. The effort included a thoughtful and thorough redesign of our enterprise as well as a dedicated fundraising drive to fill the financial hole left by the loss of a major pledge.

Our total support to the Naval Academy for fiscal year 2010 was $10.4 million, reflecting a slight reduction from the previous year. Our goal was to be very conservative in our decision-making while maximizing both the services we offer to our alumni and the support we make to the Academy.

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—now a three-year trend we are committed to continuing. Our internal controls ensure transactions are authorized, executed and recorded properly.

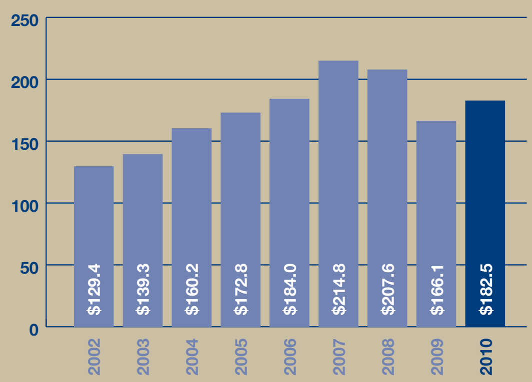
The Joint Finance and Audit Committee of the respective boards—nine members who are neither officers nor employees of the Alumni Association or Foundation—meets quarterly with management to ensure the management team fulfills its responsibility for accounting controls and preparation of the financial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

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

Henry J. Sanford
Chief Financial Officer and Treasurer

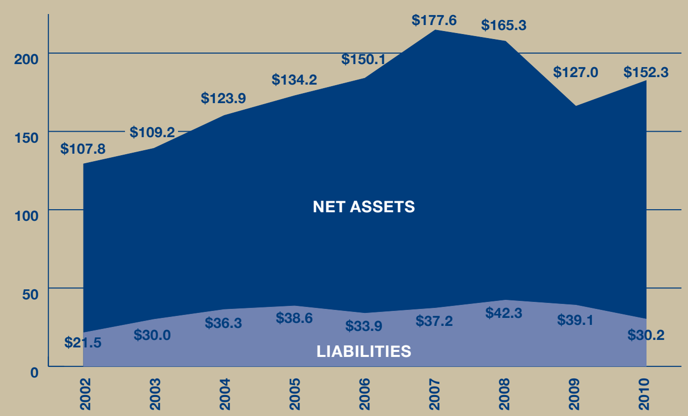
ASSETS:

Assets *(in millions)*



LIABILITIES:

Liabilities/Net Assets *(in millions)*



FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR ENDING 30 JUNE 2010

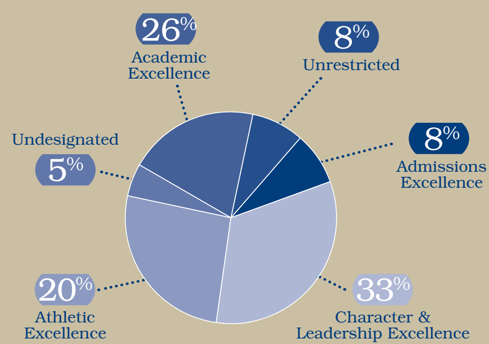
SUPPORT TO USNA $M

Character & Leadership Excellence	$3.43
Academic Excellence	2.69
Athletic Excellence	2.13
Admissions Excellence	0.84
Unrestricted	0.81
Undesignated	0.53
Total support to USNA	**$10.43**

REVENUE $M

Contributions	$27.14
Investment income	15.42
Fund administration fee	1.11
Membership and merchandise sales	0.62
Royalties	0.57
Other	2.13
Total support and revenue	**$46.99**

SUPPORT TO NAVAL ACADEMY 2010



EXPENSES $M

Program Services:

Support to Naval Academy	$10.43
Alumni publications	1.21
Member support	1.86
Partnership marketing	0.51
Alumni communications	0.80
Career transitions	0.60
Total program services	**$15.41**

Support Services:

Development	$4.70
General & administrative	1.52
Total support services	**$6.22**
Total expenses	**$21.63**

FINANCIAL HIGHLIGHTS

Revenue and gains $M	2004	2005	2006	2007	2008	2009	2010
Contributions	$41.14	$28.29	$29.71	$34.47	$30.41	$24.64	$27.14
Investment income (loss)	9.88	8.14	10.71	22.42	(0.74)	(23.85)	15.42
Fund administration fee	1.17	0.91	1.06	1.31	1.26	1.16	1.11
Membership and merchandise sales	0.58	0.59	0.60	0.67	0.59	0.62	0.62
Other	2.59	1.33	1.39	2.10	0.51	1.15	2.70
Total Revenue and Gains	**$55.36**	**$39.26**	**$43.47**	**$60.97**	**$32.03**	**$3.72**	**$46.99**

Expenses $M							
PROGRAMS:							
Support to Naval Academy	$29.24	$17.89	$15.07	$21.20	$29.88	$11.21	$10.43
Alumni publications	1.52	1.31	1.27	1.29	1.42	1.26	1.21
Member support	2.01	2.02	2.09	2.05	2.16	2.10	1.86
Partnership marketing	0.46	0.43	0.47	0.55	0.58	0.61	0.51
Alumni communications	0.42	0.75	0.74	0.84	0.87	0.97	0.80
Career transitions	0.53	0.52	0.61	0.64	0.71	0.74	0.60
Total program expenses	*$34.18*	*$22.92*	*$20.25*	*$26.57*	*$35.62*	*$16.89*	*$15.41*
SUPPORT SERVICES:							
Development	$4.82	$4.60	$5.65	$5.29	$6.74	$23.34*	$4.70
General & administrative	1.66	1.39	1.65	1.67	1.95	1.84	1.52
Total support expense	*$6.48*	*$5.99*	*$7.30*	*$6.96*	*$8.69*	*$25.18*	*$6.22*
Total Expenses	**$40.66**	**$28.91**	**$27.55**	**$33.53**	**$44.31**	**$42.07**	**$21.63**

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

INVESTMENT PORTFOLIO REVIEW

OVERVIEW

The fiscal year that ended 30 June 2010 (FY10) was a year of remarkable recovery for our investment portfolio. Due to the rebound in the financial markets during the year, the total investment portfolio value increased by $15.4M from $124.9M to $140.3M and reported $15.4M of net investment income following the net loss of $23.9M in FY09. The increased market value significantly improved the financial position of our restricted funds.

FY10 contributions to the total investment portfolio were $12.2M, compared to $6.4M of FY09. Distributions from the investment portfolio for FY10 and FY09 amounted to $13.1M and $10.6M, respectively. These distributions were used for program funding at the Naval Academy and for the Associations' operations.

Shown in the accompanying chart is the value of all investments since the joint operations began on 31 December1999.

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

CORE PORTFOLIO

The *Core Portfolio*, a pooled fund representing approximately 80 percent of the Associations' invested funds, continues to be managed by *The Investment Fund for Foundations (TIFF)*. The core portfolio was valued at $112.4M as of 30 June. The core portfolio earned an annual return of 14.6 percent for FY10.

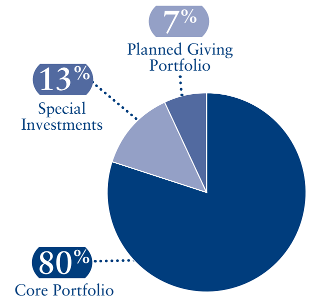


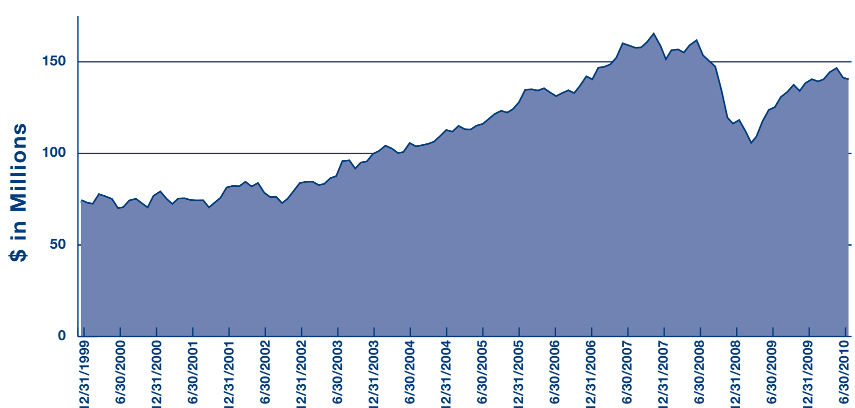
CHART 2 – Investment Portfolios

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 12.2 percent for the same period.

Table 1 shows core portfolio returns for the last twelve years.

The core portfolio's asset allocation as of 30 June 2010 and 30 June 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 FY10, we continued to fund capital calls previously committed to these funds. The total funding to these calls during FY10 and FY09 amounted to $3.5M and $3.6M, respectively. The remaining commitments to private investments were $15.8M at the end of FY10. 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.

CHART 1 – Value of All Investments (12/1999–6/2010)



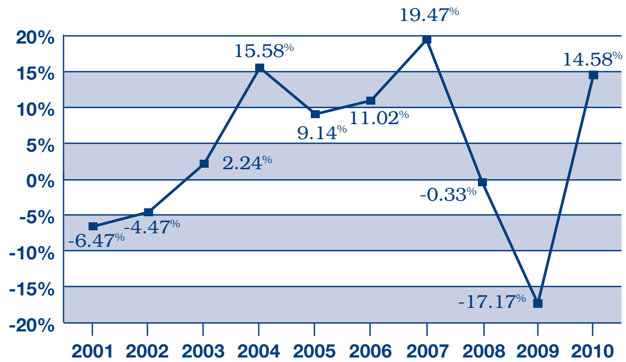


Table 1 – Core Portfolio Returns for Fiscal Years 2001-2010

PLANNED GIFT PORTFOLIO

The planned gift portfolio consists of charitable trusts assets, charitable gift annuity investment accounts and a pooled income fund. The planned gift portfolio was $9.6M and represented about 7 percent of the total investments as of 30 June 2010. SunTrust is the Associations' planned gift administrator and manages the planned gift portfolio. The planned gift portfolio had a total return of 11.8 percent 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 is an aggregation of various stand-alone investments that do not fit within the core or planned gift portfolios. At fiscal year end, this portfolio was valued at $18.3M and made up 13 percent of all investments. There is a wide variation in the types of investments and objectives of these various accounts within the special investment program. The largest component of this category is the short-term investments of $8.7M as of 30 June 2010 representing the investments for the short-term restricted funds.

	6/30/2009 Actual	6/30/2010 Policy	6/30/2010 Actual
Total Return Assets			
Global Stocks	42.3%	35.0%	40.8%
Private Equity	6.2%	20.0%	8.1%
Absolute Return	19.1%	—	—
High Yield Bonds	4.8%	6.0%	5.3%
Other Total Return Assets	—	0.0%	1.5%
Inflation Hedges			
Resource-Related Stocks	6.5%	—	—
Marketable Real Estate (REITs)	2.7%	3.0%	3.0%
Commodities	3.0%	3.0%	2.8%
Private Realty and Resources	1.5%	10.0%	1.9%
Deflation Hedges			
Conventional Bonds	0.0%	—	—
All-Purpose Hedges			
Inflation-Linked Bonds	11.2%	13.0%	11.6%
Cash Equivalents	2.7%	10.0%	16.6%
Other Hedging Assets	—	0.0%	8.4%
Total	**100%**	**100%**	**100%**

Table 2 – Core and Policy Portfolio Asset Allocation

SUMMARY

While market volatility and economic uncertainty may continue for some time, we believe our portfolio is appropriately positioned to achieve our objectives over the long-term. Following the last couple of years of turbulence and recovery, it is still our conviction that adherence to sound long-term investment policies remains the best approach to achieve our objectives. The following table is a brief summary of the latest performance:

FY11 YEAR-TO-DATE 30 SEPTEMBER 2010 (Q1)

Core Portfolio	7.49%
Planned Gift Portfolio	7.37%

The United States Naval Academy Alumni Association, Inc.

United States Naval Academy Foundation, Inc.

Consolidated Financial Report

JUNE 30, 2010

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, 2010 and 2009, 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, 2010 and 2009, 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 13, 2010

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 And 2009

	2010	2009
Assets		
Cash and cash equivalents	$ **3,544,857**	$ 2,973,114
Accounts receivable and other current assets	**544,811**	641,361
Contributions receivable, net (Note 2)	**28,644,855**	28,052,137
Investments (Notes 3 and 4)	**140,300,832**	124,924,022
Property and equipment, net (Note 6)	**6,730,720**	6,936,935
Interest in third party trusts	**2,744,124**	2,566,704
Total assets	**$ 182,510,199**	$ 166,094,273
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ **1,252,524**	$ 1,304,608
Deposits on life memberships (Note 7)	**548,925**	551,943
Class savings accounts	**2,529,848**	2,514,040
Deferred income and deposits	**966,108**	856,488
Notes payable (Note 8)	**3,390,000**	10,450,000
Loan payable (Note 8)	**-**	1,000,000
Split-interest agreements	**7,097,182**	8,396,808
Accrued key employees' retirement (Note 10)	**612,350**	698,632
Unamortized life memberships deferred revenue (Note 7)	**13,802,282**	13,363,548
Total liabilities	**30,199,219**	39,136,067
Net Assets		
Unrestricted	**6,799,679**	2,886,271
Temporarily restricted (Notes 11 and 13)	**87,215,995**	67,846,944
Permanently restricted (Notes 12 and 13)	**58,295,306**	56,224,991
Total net assets	**152,310,980**	126,958,206
Commitments (Note 4)		
Total liabilities and net assets	**$ 182,510,199**	$ 166,094,273

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions (Note 5)	$ 12,186,870	$ 12,449,949	$ 2,504,139	$ 27,140,958
Membership dues	266,146	-	-	266,146
Life member amortization (Note 7)	282,666	-	-	282,666
Merchandise sales	71,071	-	-	71,071
Net investment income (Note 3)	3,040,204	12,189,893	188,877	15,418,974
Publications and advertising	251,602	-	-	251,602
House activities	107,570	-	-	107,570
Career transition services	555,517	-	-	555,517
Homecoming and conference fees	97,259	-	-	97,259
Fund administrative fee	1,106,340	-	-	1,106,340
Royalties	573,280	-	-	573,280
Travel income	21,570	-	-	21,570
Other	63,190	-	-	63,190
Other support:				
Change in value of split-interest agreements	273,927	500,639	258,909	1,033,475
Changes in donors' intent (Note 9)	(4,226,269)	5,107,879	(881,610)	-
Net assets released from restrictions (Note 9)	10,879,309	(10,879,309)	-	-
Total revenue and gains	25,550,252	19,369,051	2,070,315	46,989,618
Expenses:				
Program services:				
Support to the Naval Academy (Note 5)	10,431,397	-	-	10,431,397
Alumni publications	1,216,228	-	-	1,216,228
Membership support	1,859,390	-	-	1,859,390
Partnership marketing	505,735	-	-	505,735
Alumni communications	803,985	-	-	803,985
Career transitions	598,157	-	-	598,157
Total program services	15,414,892	-	-	15,414,892
Supporting services:				
Development	4,702,045	-	-	4,702,045
General and administrative	1,519,907	-	-	1,519,907
Total supporting services	6,221,952	-	-	6,221,952
Total expenses	21,636,844	-	-	21,636,844
Change in net assets	3,913,408	19,369,051	2,070,315	25,352,774
Net assets at beginning of year	2,886,271	67,846,944	56,224,991	126,958,206
Net assets at end of year	$ 6,799,679	$ 87,215,995	$ 58,295,306	$152,310,980

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 STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 And 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	$ 25,352,774	$ (38,345,608)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	344,478	355,235
Change in discount and allowance on contributions receivable	(1,781,075)	(3,239,888)
Amortization of life memberships	(282,266)	(268,696)
Net realized and unrealized (gains) losses on investments	(12,148,311)	25,999,962
Split-interest agreements	(1,299,626)	(2,783,406)
Interest in third-party trusts	(177,420)	556,036
Gain on sale of property and equipment	(638)	-
Contributed securities	(3,471,511)	(1,800,909)
Contributions restricted for long-term investment	(344,300)	(29,552,493)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable and other current assets	96,550	(104,810)
Contributions receivable	148,537	16,477,566
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(52,084)	(814,730)
Deposits on life memberships	(3,018)	(37,465)
Class savings accounts	15,808	386,243
Deferred income and deposits	109,620	(46,173)
Accrued key employees' retirement	(86,282)	(399,843)
Unamortized life memberships deferred revenue	721,000	718,052
Net cash provided by (used in) operating activities	7,142,236	(32,900,927)
Cash Flows From Investing Activities		
Purchases of property and equipment	(138,725)	(1,237,609)
Proceeds from sales of property and equipment	1,100	-
Purchase of investments	(26,439,852)	(19,378,766)
Proceeds from sales or maturities of investments	26,682,864	23,533,960
Net cash provided by investing activities	105,387	2,917,585
Cash Flows From Financing Activities		
Proceeds from contributions restricted for long-term investment	1,384,120	31,019,531
Proceeds from issuance of note payable	-	1,000,000
Principal payments on notes payable	(7,060,000)	(550,000)
Principal payments on loan payable	(1,000,000)	(400,000)
Net cash (used in) provided by financing activities	(6,675,880)	31,069,531
Net increase in cash and cash equivalents	571,743	1,086,189
Cash And Cash Equivalents		
Beginning of year	2,973,114	1,886,925
End of year	$ 3,544,857	$ 2,973,114
Supplemental Disclosure Of Cash Flow Information		
Cash paid during year for interest	$ 126,916	$ 281,046
Supplemental Disclosure Of Noncash Investing And Financing Activities		
Contributed securities	$ 3,471,511	$ 1,800,909
Other non-cash assets	$ 176,070	$ 471,582

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 contribution 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.

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, 2010 and 2009.

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

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-15-2 and FASB ASC 958-605-15-4, *Revenue Recognition – Contributions Received,* 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: In accordance with FASB ASC 820, *Fair Value Measurements and Disclosure*, the Associations report all investments at fair value (see Note 4). Effective December 15, 2009, the Associations adopted the Accounting Standards Update, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2009-12), which provides guidance on how entities should estimate the fair value of certain alternative investments and expands disclosure requirements for applicable investments The Associations adopted this standard in fiscal year 2010 and the adoption did not have a material impact on the Associations' consolidated financial condition, results of operations or liquidity.

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. These investments 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 consolidated financial statements.

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, real estate investment trusts (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 FASB ASC 360-10-20, *Accounting for the Impairment or Disposal of Long-Lived Assets*. FASB ASC 360-10-20 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 ($2,365,995 and $1,854,507 at June 30, 2010 and 2009, respectively) and cash and cash equivalents ($163,853 and $659,533 at June 30, 2010 and 2009, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 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 $46,697 and $46,836 during the years ended June 30, 2010 and 2009, respectively. The fair value of the assets held for all split-interest agreements was $10,120,872 and $12,633,337 as of June 30, 2010 and 2009, respectively. The liability to beneficiaries from the life-contingent agreements represents the present value of the estimated future payments based on actuarial assumptions. Adjustments to the liability to reflect any changes in actuarial assumptions, amortization of the discount 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

The Associations have adopted the accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, the Associations may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Associations' tax positions and has concluded that the Associations have taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with provisions of this guidance.

As of June 30, 2010 and 2009, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. With few exceptions, the Associations are no longer subject to U.S. federal, state or local tax examinations by tax authorities for years ending before June 30, 2007.

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.

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, 2010, pledges totaling $763,314 were written off by the Associations. 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 in 2009. Bad debt expense is included in Development expense and reported in the year the pledge becomes uncollectible.

Subsequent events: The Associations have evaluated subsequent events for potential required disclosures through October 13, 2010, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Contributions Receivable

Contributions receivable at June 30, 2010 and 2009, are summarized as follows:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 14,410,700	$ 10,530,971
One year to five years	12,864,395	18,145,659
Over five years	8,023,588	7,810,410
	35,298,683	36,487,040
Less allowance for uncollectible amounts	(3,500,303)	(4,364,960)
Less discount to present value (5%)	(3,153,525)	(4,069,943)
	$ 28,644,855	$ 28,052,137

Note 3. Investments

Investments at fair value at June 30, 2010 and 2009, are summarized as follows:

	2010	2009
Cash and cash equivalents	$ 1,792,792	$ 1,785,771
Share certificates	1,617,048	1,520,290
Debt securities bonds and notes	1,601,895	950,520
Equity securities stocks	554,640	504,097
Total cash, cash equivalents, certificates and securities	5,566,375	4,760,678
Mutual funds		
Fixed income and debt mutual funds	17,634,325	15,124,499
Equity mutual funds	11,253,895	12,678,807
Combined fixed income and equity funds	330,760	416,810
Multi-asset mutual funds	80,031,821	71,228,549
Total mutual funds	109,250,801	99,448,665
Other investments		
Limited partnerships	11,278	10,454
Private equity funds	9,144,717	6,280,116
Private realty and resources funds	2,353,063	1,766,112
Hedge funds	11,859,684	10,590,864
Charitable gift annuity reinsurance	965,583	1,013,028
Charitable life insurance policies	1,149,331	1,054,105
Total other investments	25,483,656	20,714,679
	$140,300,832	$ 124,924,022

Note 3. Investments (Continued)

Net investment income (loss) for the years ended June 30, 2010 and 2009, is as follows:

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Interest and dividends	$ 844,389	$ 2,598,470	$ -	$ 3,442,859
Net realized gains	93,447	426,470	-	519,917
Net unrealized gains	1,981,532	9,646,862	188,877	11,817,271
Less management fees	(78,821)	(282,252)	-	(361,073)
	2,840,547	12,389,550	188,877	15,418,974
Transfer to refund unrestricted amounts	199,657	(199,657)	-	-
Net investment gains	**$ 3,040,204**	**$ 12,189,893**	**$ 188,877**	**$ 15,418,974**

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 887,860	$ 2,186,539	$ -	$ 3,074,399
Net realized gains	(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 restore corpus	(964,470)	964,470	-	-
Net investment losses	$(6,195,885)	$ (17,132,255)	$ (522,994)	$ (23,851,134)

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. In fiscal year 2010, the Associations transferred $199,657 to refund these unrestricted amounts. Deficiencies of this nature that are reported in unrestricted net assets were $824,251 and $1,023,908 as of June 30, 2010 and 2009, respectively.

Note 4. Fair Value Measurements

Accounting guidance defines fair value as 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, and sets out a fair value hierarchy.

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. Certain alternative investments are carried at estimated fair value as of March 31 and adjusted for cash receipts, cash distributions and security distributions through June 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

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 are supported by little or no market activity and 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, 2010 and 2009, respectively.

	Year Ended June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Debt securities bonds and notes	$ 1,601,895	$ -	$ -	$ 1,601,895
Equity securities stocks	554,640	-	-	554,640
Mutual funds	109,250,801	-	-	109,250,801
Limited partnerships	-	-	11,278	11,278
Private equity funds	-	-	9,144,717	9,144,717
Private realty and resources funds	-	-	2,353,063	2,353,063
Hedge funds	-	-	11,859,684	11,859,684
Charitable life insurance policies	-	1,149,331	-	1,149,331
Charitable gift annuity reinsurance	-	965,583	-	965,583
Interest in third party trusts	-	-	2,744,124	2,744,124
Interest in charitable remainder unitrusts with third-party trustees	-	-	3,760,744	3,760,744
Total	$ 111,407,336	$ 2,114,914	$ 29,873,610	$ 143,395,860

	Year Ended 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

Note 4. Fair Value Measurements (Continued)

Cash and cash equivalents are excluded from the fair value hierarchy as cash and cash equivalents are generally measured at cost. As such, $1,792,792 and $1,785,771 of cash and cash equivalents and $1,617,048 and $1,520,290 of share certificates held in the Associations' investment portfolio at June 30, 2010 and 2009, respectively, have been excluded from this table.

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

	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	$23,691,056
Total realized and unrealized gains (losses)	**824**	**852,226**	**(109,140)**	**1,268,820**	**188,877**	**-**	**2,201,607**
Transfer in/(out) of Level 3	**-**	**2,012,375**	**696,091**	**-**	**(21,970)**	**1,103,954**	**3,790,450**
Change in value	**-**	**-**	**-**	**-**	**10,513**	**179,984**	**190,497**
Balance, June 30, 2010	**$ 11,278**	**$ 9,144,717**	**$ 2,353,063**	**$ 11,859,684**	**$ 2,744,124**	**$ 3,760,744**	**$29,873,610**
Unrealized gains (losses) and change in value relating to assets still held as of June 30, 2010	**$ 824**	**$ 637,718**	**$ (142,209)**	**$ 1,268,820**	**$ 199,390**	**$ 179,984**	**$ 2,144,527**

The Associations categorize assets 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 limited partnership is determined based on the audited financial statements which the entity prepares on an annual basis as of the Associations' reporting date. The 0.5% limited partnership interest was gifted to the Foundation in 1998, and no other capital commitments are required. 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. The partnership shall continue until December 31, 2037, unless terminated sooner.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

Private equity funds: Substantially all of the Associations' investments in private equity represent interest in multiple funds of funds private equity investment vehicles managed by the Associations' principal investment manager and another designated investment manager. The investment funds typically pursue such strategies as investments in venture capital, buyouts, subordinated debt, restructuring and distressed debt and securities, recapitalizations and other situations.

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 and independently evaluates its share of the valuation from the underlying investment managers.

The private equity vehicles have terms ranging from 12 to 15 years with respective expiration dates from 2017 to 2019. The investment managers have up to three to five consecutive one-year extensions at their discretion. Interests in these vehicles are subject to significant restrictions on transferability.

Under the terms of these private equity investment contracts, the Associations are obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2010, the Associations' had uncalled commitments of approximately $11,000,000, which represents 48% of the original commitments. The Associations expect the remaining commitments to be called over the next several years.

Private realty and resources funds: Substantially all of the investments in private realty and resources are through fund of funds private realty and resources investment vehicles managed by the Associations' principal investment manager. The investment funds typically pursue such strategies as investments in commercial and residential real estate, oil and natural gas exploration and production, timberland, and other natural resources. The valuation for underlying investments within each fund is determined as noted above.

The invested private realty and resources vehicles have 15-year terms with expiration dates of 2021 and 2022. The investment manager has up to seven consecutive one-year extensions at their discretion. Interests in these vehicles are subject to significant restrictions on transferability.

The remaining commitments under the terms of the private realty and resources funds amounted to $4,795,000 as of June 30, 2010, representing 64% of the original commitments. The Associations expect the remaining commitments to be exercised over the next several years.

Hedge funds: The Associations invest in hedge funds through an offshore fund of funds vehicle managed by the Associations' principal investment manager. This investment vehicle employs directly, or through other managers, in the following strategies: capital structure arbitrage, event arbitrage, fixed income arbitrage, hedged equity investing, special situations investing and possibly derivative investments, as well as buying and selling securities for hedging purposes. Valuation of interests in underlying investment funds is based on an amount equal to the vehicle's pro-rata interest in the net assets, which are at fair value, as reported by the management of the investment fund monthly, as adjusted for manager and incentive fees, if applicable.

Note 4. Fair Value Measurements (Continued)

The vehicle has no set termination date. Following the initial three-year lock-up period, the Associations are currently subject to an additional three-year lock-up period, during which share redemptions are permitted on December 31 of each year with 100 days' advance written notice. Early redemptions within a lock-up period are subject to a 20% gate, which prohibits redemption exceeding 20% of the total fund's value. Shares in the vehicle are not registered for public sale. The Associations perform due diligence procedures to review the valuations of the alternative investments described above.

Interest in third-party trusts: The Associations' staff estimates their beneficial interest in the third-party trusts 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, which are valued at an annual amount of $373,575 and $354,664 in 2010 and 2009, respectively. Contributed services related to property management of the Foundation's houses are donated by the Naval Academy Athletic Association and are valued at an annual amount of $77,983 and $69,035 in 2010 and 2009, respectively.

During 2010 and 2009, the Associations received non-cash donations of assets for use by the Naval Academy valued at $176,070 and $471,582, 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, 2010 and 2009, is summarized as follows:

	2010	2009
Land	**$ 753,197**	$ 753,197
Buildings and improvements	**7,971,483**	8,162,109
Furniture and equipment	**1,143,051**	928,255
Computer equipment and software	**507,016**	396,516
	10,374,747	10,240,077
Less accumulated depreciation and amortization	**(3,644,027)**	(3,303,142)
	$ 6,730,720	$ 6,936,935

Depreciation expense was $344,478 and $355,235 for the years ended June 30, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009, the Alumni Association held $548,925 and $551,943, 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, 2010 and 2009, $581,915 and $573,714, respectively, relating to the graduating classes of 2010 and 2009, 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.

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, 2010 and 2009, the 30-day LIBOR index rate was .35% and .92%, respectively.

The note is guaranteed by the Naval Academy Athletic Association, Inc. Interest expense of $48,863 and $160,576 was recorded during the years ended June 30, 2010 and 2009, respectively. The Foundation repaid $4,010,000 and $550,000 of the principal in fiscal years 2010 and 2009, respectively. The outstanding balance of this note was $2,890,000 and $6,900,000 as of June 30, 2010 and 2009, 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 2010, the Associations repaid $3,050,000 of the principal. 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 $11,948 and $55,908 was recorded during the years ended June 30, 2010 and 2009, respectively. The outstanding balance of this note was $500,000 and $3,550,000 as of June 30, 2010 and 2009, 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% was due annually with the donor contributing the interest for the first year and a half to the Foundation. Interest expense of $22,082 and $64,562 was recorded during the years ended June 30, 2010 and 2009, respectively. The Foundation repaid $1,000,000 and $400,000 of the principal in fiscal years 2010 and 2009, respectively. The outstanding balance of this loan at June 30, 2009 was $1,000,000. The loan has been paid in full as of June 30, 2010.

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

Net assets of $10,879,309 and $25,594,855 for the years ended June 30, 2010 and 2009, 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, 2010, represent reclassifications of $4,226,269 from unrestricted net assets and $881,610 from permanently restricted net assets to temporarily restricted net assets. 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.

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 year ended June 30, 2009, the Alumni Association made contributions of $265,757 on behalf of its eligible employees. The Alumni Association did not make contributions during the year ended June 30, 2010.

457 plans: The Alumni Association has agreements with seven 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, 2010 and 2009, the Alumni Association's liability for these plans was $612,350 and $698,632, respectively. Total retirement expense under these plans for the years ended June 30, 2010 and 2009, was $90,000 and $184,793, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Temporarily Restricted Net Assets (Continued)

	2010	2009
Naval Academy Centers of Excellence:		
Academic	$ 31,296,262	$ 21,571,567
Admissions	6,518,074	5,092,746
Athletics	10,716,581	6,440,536
Character (ethics)	10,339,660	7,875,868
Leadership	9,704,284	10,249,567
Support to the Naval Academy not yet assigned to a center of excellence	666,264	430,035
Purpose restricted assets	69,241,125	51,660,319
Time restricted assets	17,974,870	16,186,625
Total temporarily restricted net assets	$ 87,215,995	$ 67,846,944

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2010 and 2009, are invested to fund the following:

	2010	2009
Endowments supporting U.S. Naval Academy	$ 49,887,126	$ 48,043,575
Endowments supporting athletics and scholarship	5,654,773	5,465,896
Endowments supporting operations	2,753,407	2,715,520
Total permanently restricted net assets	$ 58,295,306	$ 56,224,991

Note 13. Endowment Funds

ASC 958-205, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and the Enhanced Disclosures for All Endowment Funds* 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). ASC 958-205 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.

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.

Note 13. Endowment Funds (Continued)

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; and
(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.

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 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Endowment Funds (Continued)

Changes in endowed net assets for the fiscal years ended June 30, 2010 and 2009, are as follows:

	Year Ended June 30, 2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ (1,023,908)**	**$ 7,072,709**	**$ 56,224,991**	**$ 62,273,792**
Interest and dividends - net of investment expense	**-**	**1,519,333**	**-**	**1,519,333**
Net appreciation	**199,657**	**5,085,871**	**188,877**	**5,474,405**
Change in value	**-**	**-**	**258,909**	**258,909**
Contributions	**-**	**-**	**2,504,139**	**2,504,139**
Amounts appropriated for expenditure	**-**	**(1,885,547)**	**-**	**(1,885,547)**
Change in donor intent	**-**	**466,380**	**(881,610)**	**(415,230)**
Endowment net assets, end of year	**$ (824,251)**	**$ 12,258,746**	**$ 58,295,306**	**$ 69,729,801**

	Year Ended June 30, 2009			
	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 depreciation	(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	$ (1,023,908)	$ 7,072,709	$ 56,224,991	$ 62,273,792

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

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 13, 2010

STATEMENTS OF FINANCIAL POSITION
June 30, 2010 And 2009

	2010	2009
Assets		
Cash and cash equivalents	**$ 2,003,692**	$ 960,051
Accounts receivable and other current assets	**415,102**	401,905
Contributions receivable, net	**1,949,797**	1,944,586
Investments	**54,010,508**	46,884,818
Property and equipment, net	**3,450,877**	3,582,851
Interest in third party trusts	**363,667**	375,124
Intercompany receivables	**1,373,812**	1,893,140
Total assets	**$ 63,567,455**	$ 56,042,475
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 1,100,610**	$ 1,019,546
Deposits on life memberships	**548,925**	551,943
Class savings accounts	**2,529,848**	2,514,040
Deferred income and deposits	**963,343**	852,356
Note payable	**500,000**	1,000,000
Split-interest agreements	**1,250,769**	1,399,471
Accrued key employees' retirement	**612,350**	698,632
Unamortized life memberships	**13,802,282**	13,363,548
Total liabilities	**21,308,127**	21,399,536
Net assets		
Unrestricted	**4,711,117**	2,353,289
Temporarily restricted	**15,627,790**	11,598,262
Permanently restricted	**21,920,421**	20,691,388
Total net assets	**42,259,328**	34,642,939
Total liabilities and net assets	**$ 63,567,455**	$ 56,042,475

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	$ 861,866	$ 1,848,141	$ 1,128,051	$ 3,838,058
Membership dues	266,146	-	-	266,146
Life member amortization	282,666	-	-	282,666
Merchandise sales	71,071	-	-	71,071
Net investment gains	2,145,091	3,931,197	-	6,076,288
Publications and advertising	251,602	-	-	251,602
House activities	107,570	-	-	107,570
Intercompany support	2,039,779	-	-	2,039,779
Career transition services	555,517	-	-	555,517
Homecoming and conference fees	97,259	-	-	97,259
Royalties	573,280	-	-	573,280
Travel income	21,570	-	-	21,570
Other	59,633	-	-	59,633
Other support:				
Change in value of split-interest agreements	8,620	139,559	7,855	156,034
Changes in donors' intent	(149,197)	(298,594)	93,127	(354,664)
Equity loans to endowments	116,724	(116,724)	-	-
Net assets released from restrictions	1,474,051	(1,474,051)	-	-
Total revenue, gains and other support	8,783,248	4,029,528	1,229,033	14,041,809
Expenses:				
Support to the Naval Academy	1,455,179	-	-	1,455,179
Audit and accounting	52,878	-	-	52,878
Awards and gifts	13,615	-	-	13,615
Bad debt expense	22,626	-	-	22,626
Conferences	130,773	-	-	130,773
Cost of goods	42,420	-	-	42,420
Depreciation	182,590	-	-	182,590
Donor cultivation	1,534	-	-	1,534
Equipment rental	158,153	-	-	158,153
Insurance	98,366	-	-	98,366
Legal fees	155,105	-	-	155,105
Licenses	101,991	-	-	101,991
Membership dues	4,210	-	-	4,210
Miscellaneous	50,095	-	-	50,095
Occupancy	144,128	-	-	144,128
Postage and shipping	167,822	-	-	167,822
Printing and publications	441,802	-	-	441,802
Professional and contract services	503,263	-	-	503,263
Salaries and benefits	2,609,992	-	-	2,609,992
Shared information management	(181,160)	-	-	(181,160)
Supplies	58,302	-	-	58,302
Telephone	80,030	-	-	80,030
Training	37,739	-	-	37,739
Travel and transportation	93,967	-	-	93,967
Total expenses	6,425,420	-	-	6,425,420
Change in net assets	2,357,828	4,029,528	1,229,033	7,616,389
Net assets at beginning of year	2,353,289	11,598,262	20,691,388	34,642,939
Net assets at end of year	$ 4,711,117	$ 15,627,790	$ 21,920,421	$ 42,259,328

STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	**$ 1,541,165**	$ 2,013,063
Accounts receivable and other current assets	**129,709**	239,456
Contributions receivable, net	**26,695,058**	26,107,551
Investments	**86,290,324**	78,039,204
Property and equipment, net	**3,279,843**	3,354,084
Interest in third party trusts	**2,380,457**	2,191,580
Total assets	**$120,316,556**	$111,944,938
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 151,914**	$ 285,062
Deferred income	**2,765**	4,132
Notes payable	**2,890,000**	9,450,000
Loan payable	**-**	1,000,000
Split-interest agreements	**5,846,413**	6,997,337
Intercompany payables	**1,373,812**	1,893,140
Total liabilities	**10,264,904**	19,629,671
Net assets		
Unrestricted	**6,956,249**	5,323,664
Temporarily restricted	**66,720,518**	51,458,000
Permanently restricted	**36,374,885**	35,533,603
Total net assets	**110,051,652**	92,315,267
Total liabilities and net assets	**$120,316,556**	$111,944,938

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support:				
Contributions	$ 11,912,112	$ 10,014,700	$ 1,376,088	$ 23,302,900
Fund administrative fee	1,106,340	-	-	1,106,340
Net investment gains	746,982	8,406,827	188,877	9,342,686
Intercompany support	(2,039,779)	-	-	(2,039,779)
Other	3,557	-	-	3,557
Other support:				
Change in value of split-interest agreements	312,004	314,383	251,054	877,441
Changes in donors' intent	(4,077,072)	5,406,473	(974,737)	354,664
Equity loans to endowments	82,933	(82,933)	-	-
Net assets released from restrictions	8,796,932	(8,796,932)	-	-
Total revenue, gains and other support	16,844,009	15,262,518	841,282	32,947,809
Expenses:				
Support to the Naval Academy	8,976,218	-	-	8,976,218
Audit and accounting	64,629	-	-	64,629
Awards and gifts	2,306	-	-	2,306
Bad debt expense	740,689	-	-	740,689
Conferences	52,144	-	-	52,144
Consulting - Advantage	418,001	-	-	418,001
Depreciation	161,888	-	-	161,888
Donor cultivation	92,592	-	-	92,592
Equipment rental	56,528	-	-	56,528
Insurance	21,850	-	-	21,850
Legal fees	74,473	-	-	74,473
Membership dues	9,486	-	-	9,486
Miscellaneous	213,929	-	-	213,929
Occupancy	59,270	-	-	59,270
Postage and shipping	53,751	-	-	53,751
Printing and publications	64,835	-	-	64,835
Professional and contract services	285,264	-	-	285,264
Salaries and benefits	3,513,609	-	-	3,513,609
Shared information management	181,160	-	-	181,160
Supplies	24,021	-	-	24,021
Training	8,411	-	-	8,411
Travel and transportation	136,370	-	-	136,370
Total expenses	15,211,424	-	-	15,211,424
Change in net assets	1,632,585	15,262,518	841,282	17,736,385
Net assets at beginning of year	5,323,664	51,458,000	35,533,603	92,315,267
Net assets at end of year	$ 6,956,249	$ 66,720,518	$ 36,374,885	$110,051,652

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