SEIZING THE MOMENTUM

2016 Annual Report

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

MESSAGE FROM THE CHAIRMEN

Each time we return to the Naval Academy for reunions, graduations, and other events and activities, we are gratified to see new and increasingly impressive achievements unfolding, no matter how recent our last visit. Rather than resting on their considerable prior accomplishments, the Academy, its leadership and each member of the Brigade of Midshipmen remain committed to forever raising the bar, demanding more of themselves and their peers and indeed, seizing the enormous momentum sparked by their successes and moving toward the next goal on the horizon.

That degree of spirit and drive is critical in today's Navy and Marine Corps officers, who serve and lead in a world marked by increasing geopolitical complexity and rapid technological change. The programs and priorities of the Naval Academy must evolve, adapt and expand in keeping with this environment, and it has been our privilege to witness this at work at the Academy as volunteer leaders who continue to take pride in our partnership with our alma mater.

The Alumni Association and Foundation have roles to play in shaping and supporting this culture and success: communicating Academy and midshipman achievements to alumni worldwide; providing programs and services that foster a sense of connection to the Academy for all alumni; raising critical resources for the Naval Academy Annual Fund and the specific objectives of *Naval Academy Strategic Plan 2020*; and working in partnership with our colleagues at the Academy to ensure our efforts align with their underlying mission.

As alumni and friends of the Academy, you have a significant impact on the Academy and its future as well. Your engagement, your generosity and your shared commitment to the Academy mission are essential in maintaining and strengthening the profound energy, ambition and excellence that define today's Academy.

For all you do for the Academy and the Brigade of Midshipmen, we thank you.

Admiral Robert J. Natter '67, USN (Ret.)
Chairman, Board of Trustees
United States Naval Academy
Alumni Association, Inc.

Daniel F. Akerson '70
Chairman, Board of Directors
United States Naval Academy
Foundation, Inc.

MESSAGE FROM THE **PRESIDENT & CEO**

Anyone who sets foot on the Naval Academy Yard these days must be struck by the sense of energy and excitement that defines this vital component of the future of our Navy and Marine Corps. Undaunted by the challenges presented by ongoing conflict in the Middle East, changing dynamics in Asia, the rise of new technological threats and growing questions about military resources, America's best and brightest continue to come to the Academy, eager to lend their service to a legacy of integrity and excellence that dates back to 1845. Once here, they find motivation in the obstacles in front of them, learning from success and adversity, seizing every opportunity to tackle the next, larger goal that comes their way.

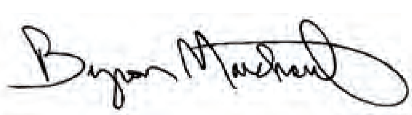
Midshipmen do this buoyed by the guidance and support of so many who have invested in their development as leaders: their families; company, battalion and brigade officers; faculty and coaches; Academy leadership; and indeed, all those who lend their time, talent and treasure to the work of the Naval Academy Alumni Association and Foundation.

The performance of Alumni Association and Foundation initiatives in support of the Naval Academy and its *Strategic Plan 2020* continues to exceed expectations, set new standards and build upon growing momentum to achieve new milestones. At the close of fiscal year 2016, Alumni Association membership stood at 61,198. Total assets exceeded $260.3 million. Annual fund gifts topped $8.6 million. Most strikingly, in the last year we provided $32.1 million in funding support to the Naval Academy, the most in Foundation history.

These Alumni Association and Foundation milestones played a part in many of the key moments that have distinguished the Academy in recent months: the graduation of the first cyber operations majors; the 40th anniversary of women in the Brigade; the groundbreaking for Hopper Hall, future home of the Center for Cyber Security Studies; the announcement of the Academy's 50th Rhodes Scholar; and Navy Football's victory in the American Athletic Conference West Division—all of which connect directly to the Academy's strategic priorities.

Thank you for joining us in supporting the Naval Academy, its mission and its future.

Go Navy!



Byron F. Marchant '78
President and CEO

SEIZING THE MOMENT

Each spring, after nearly 11 months of moral, mental and physical tests that challenge every aspect of their character, intellect and stamina, Naval Academy plebes rally for one more: Sea Trials, a 14-hour capstone event designed to test teamwork, leadership skills and company and class bonds. After a grueling day of shore defense, water tactics, hill assault, regimental running, ground fighting, riverine operations, pugil stick jousting and more, the fourth-class midshipmen might take a brief moment to celebrate making it through what for some is surely the toughest day of the toughest year of their lives.

(continued on page 6)

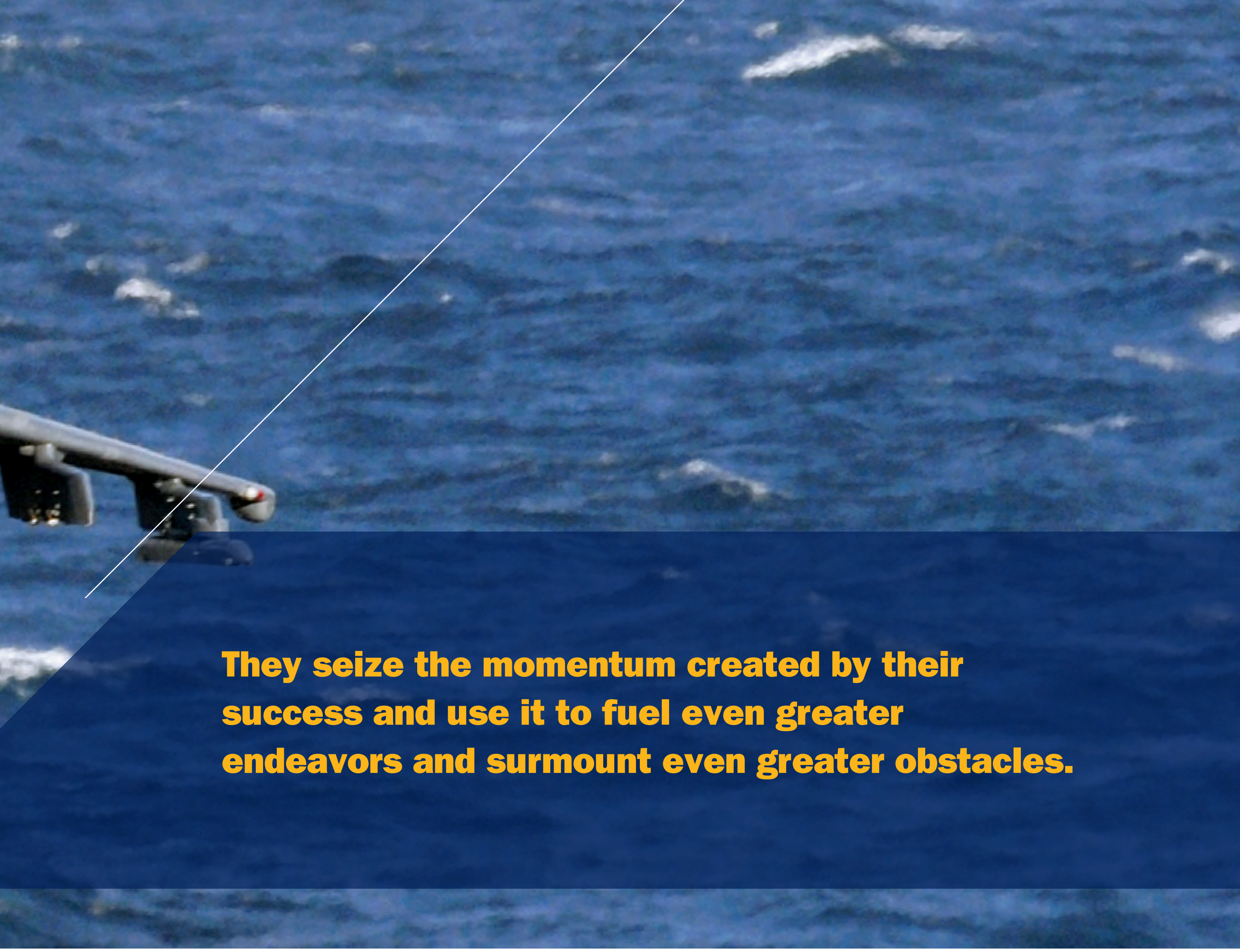
TUM

More than **$49 million** in overall contributions supporting the Academy this year

But then they get up to face what comes next—the challenges they will encounter as third-class midshipmen with new leadership responsibilities, new academic expectations and new opportunities as they move closer and closer to becoming Navy and Marine Corps officers. They seize the momentum created by their success and use it to fuel even greater endeavors and surmount even greater obstacles.

That philosophy guides the entire Brigade of Midshipmen; the Academy faculty, staff and leadership charged with their training and education; an Alumni Association and Foundation committed to supporting the Academy's mission and strategic objectives; and an alumni and donor community whose generosity and engagement play a critical role in the Academy's strength.

That philosophy helped raise more than $49 million in overall contributions supporting the Academy this year, a 34 percent increase over last year's already-strong performance. Those results, in turn, allowed the Alumni Association and Foundation to provide a record $32.1 million in support to the Academy. The impact of those resources on the Academy and the Brigade is profound: outfitting labs and other learning spaces in Hopper Hall, the future home for the Center for Cyber Security Studies; an additional Distinguished Visiting



They seize the momentum created by their success and use it to fuel even greater endeavors and surmount even greater obstacles.

Professor for the cyber program; a Director of Influencer Development for the Stockdale Center; new, fleet-standard navigation software; expansion of admissions outreach programs in key areas; additional tutors for the Naval Academy Preparatory School; and the forthcoming transformation of Ricketts Hall into the Physical Mission Center, a facility that will both showcase and support the Academy's physical mission.

That philosophy has also helped guide outreach and engagement with the Naval Academy alumni community worldwide, providing support for milestone programs such as the 40th anniversary of women in the Brigade, establishing the foundation for new initiatives including Shared Interest Groups to offer new ways for alumni to connect with the Academy, and ensuring that programs and services such as the recently redesigned *Shipmate* magazine are regularly reviewed and reconsidered to offer a constantly improving alumni experience. With continued prudent management of investments and expenses and sustained support for the always-critical Naval Academy Annual Fund, the momentum generated by this year's experiences and successes will serve as an exceptional launching point for future goals. ■

MESSAGE FROM THE
CHIEF FINANCIAL OFFICER

As the chief financial officer and treasurer of the Naval Academy Alumni Association and Foundation, I am pleased to present a true and accurate picture of the financial condition of both organizations.

The consolidated financial statements in this report accurately present the organizations' financial positions, results of operations and workflows. The financial information is prepared in accordance with generally accepted accounting principles in the United States. The financial statements in this document are the complete set presented to our auditors. The CEO and I have reviewed them, and, to the best of our knowledge, they contain no materially untrue statements, nor do they omit any material facts. Independent auditor RSM US LLP audited our financial statements and expressed an unmodified (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 no adjustments were made. Our internal controls ensure that transactions are authorized, executed and recorded properly.

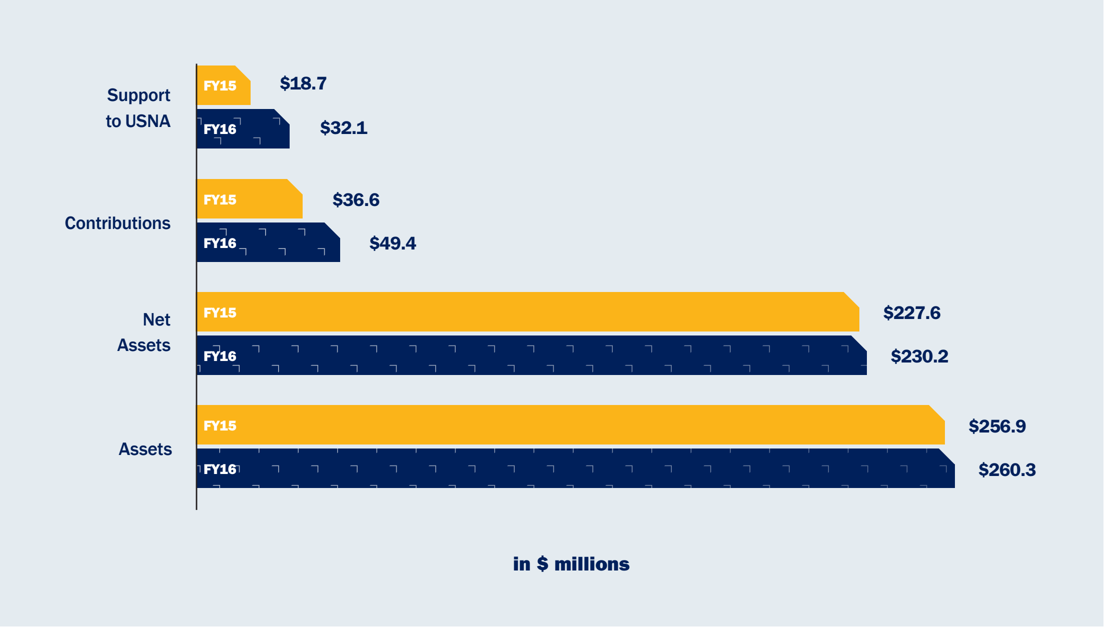
The Joint Finance and Audit Committee—nine members who are neither officers nor employees of the Alumni Association or Foundation—meets quarterly with management to ensure that the team fulfills its responsibility for accounting controls and preparation of the financial statements and related data.

The dedication and commitment of our volunteer leaders and donors are central to the Alumni Association and Foundation's success and ability to serve the Naval Academy and Brigade of Midshipmen. We thank you for your support, engagement and generosity.

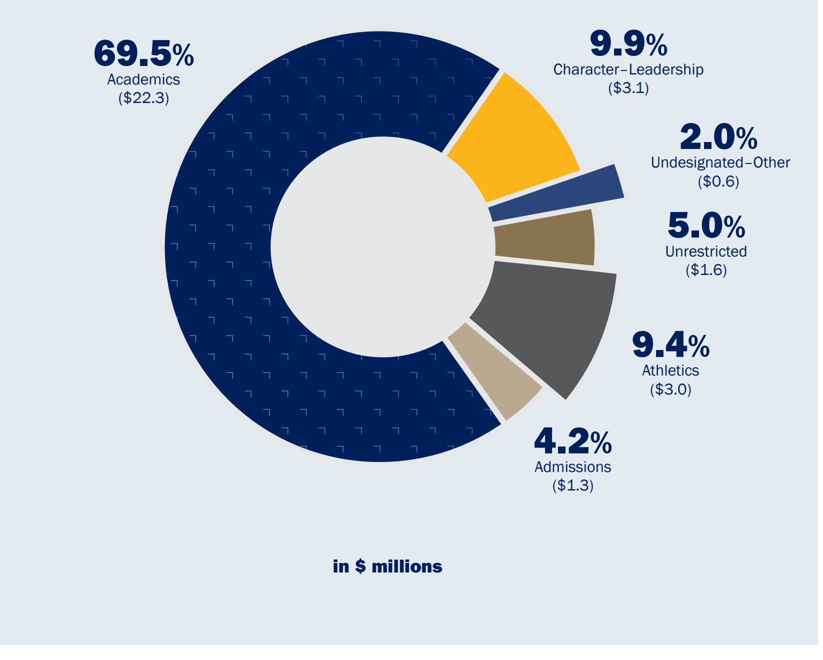
Henry J Sanford

Captain Henry J. Sanford, USN (Ret.)
Chief Financial Officer and Treasurer

FINANCIAL HIGHLIGHTS
FISCAL YEAR ENDING JUNE 30, 2016



FY16 Support to USNA by Center of Excellence

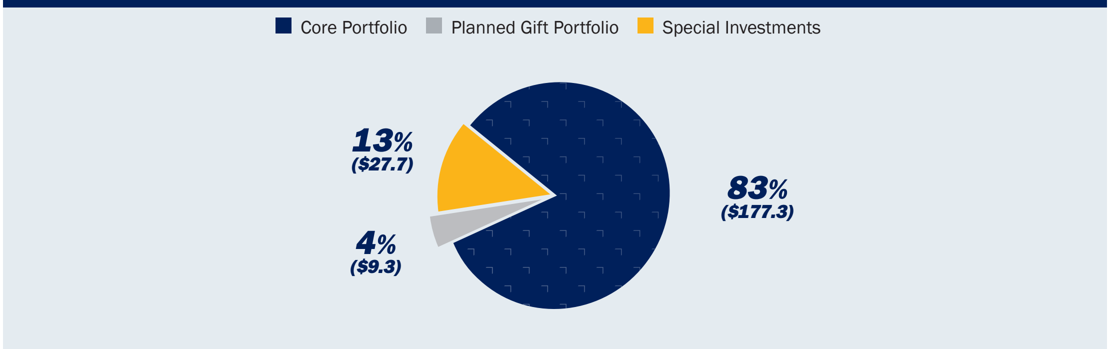


PORTFOLIO REVIEW

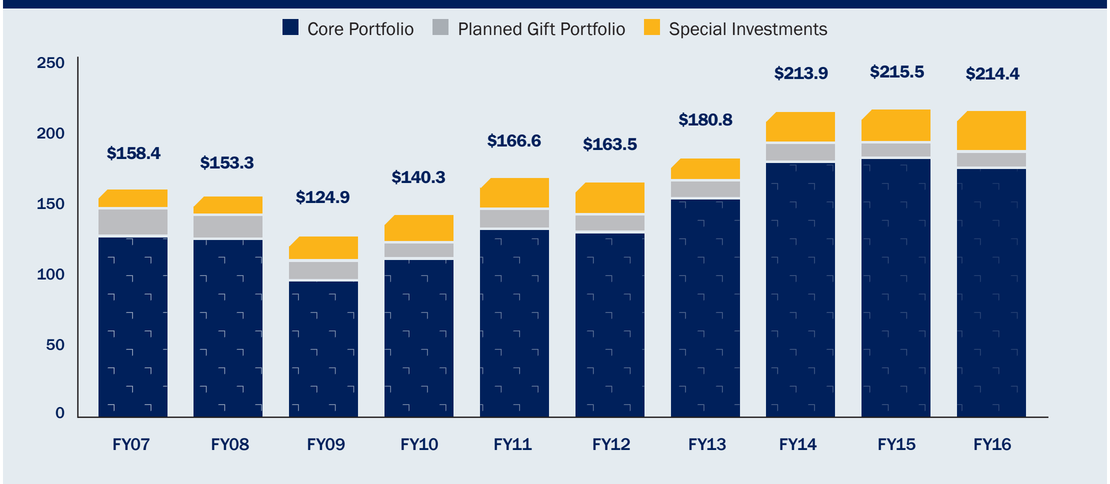
The total investment portfolio of the Alumni Association and Foundation was valued at $214.3 million on June 30, 2016. This represents a market value decline of $1.1 million from the previous year. This decline consists of $2.7 million in net investment losses and $1.6 million in net additions. The current makeup of the portfolio and annual market values of the total investment portfolio for each of the last 10 years are shown below.

The Core Portfolio holds the majority of endowed and long-term restricted gift funds. It is a pooled fund managed by The Investment Fund for Foundations (TIFF) under the oversight of the Joint Investment Committee. The Core Portfolio is invested with an objective of preserving the purchasing power of our invested assets over the long term commensurate with the risk tolerance of the organization while supporting current spending. The Core Portfolio's targeted asset allocation, known as the Policy Portfolio, has been built with the long term in mind, and the organization takes action in the shorter term to add value and reduce risk when deemed prudent.

Total Portfolio Value **(in Millions)**



Breakdown of Portfolio **(in Millions)**

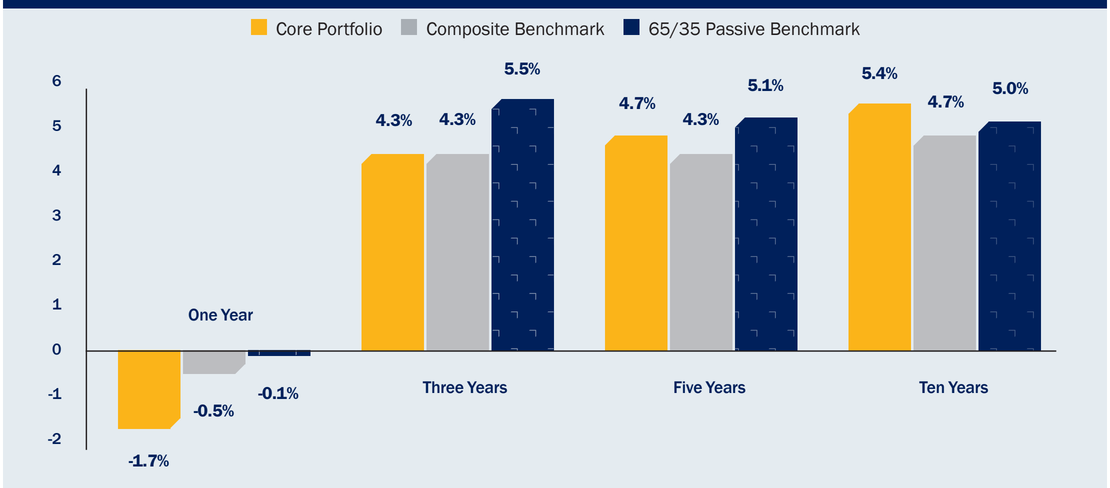


As the chart below indicates, the Core Portfolio returned -1.7% for the year ending June 30, 2016, underperforming the composite Policy Portfolio benchmark by about 120 basis points and the passive benchmark by about 160 basis points. The 12-month period ending June 30 was a difficult one for diversified portfolios like the Core Portfolio. While our return was negative and below our benchmarks, it was better than the average return earned by many endowments. The Core Portfolio's performance continues to be solid over the long periods. Our year-end allocations reflect an adjustment to our positioning with an increase in our equity exposure and a more balanced mixture of hedges that we believe will help our returns going forward.

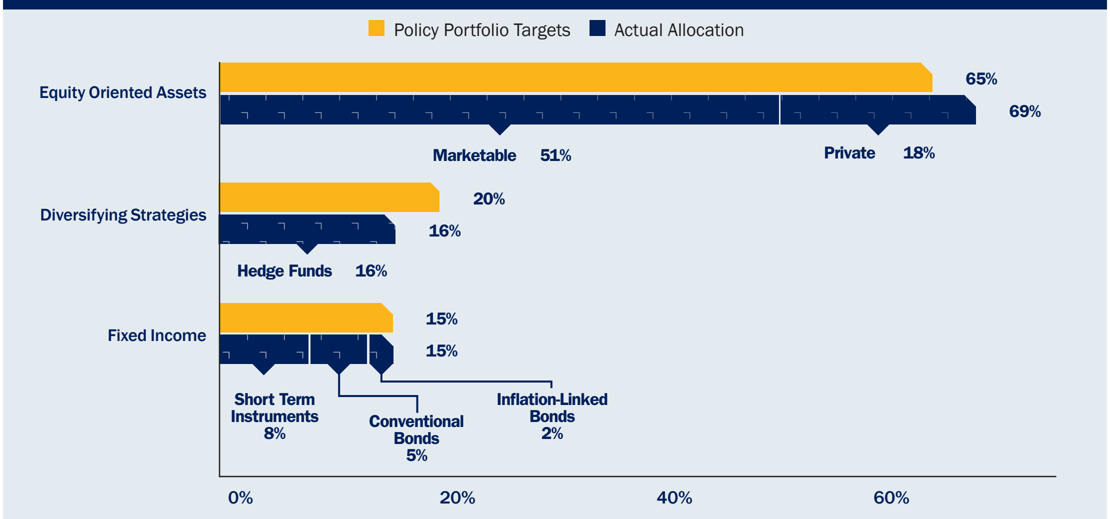
The Planned Gift Portfolio consists of non-pooled investment accounts for charitable trusts assets, charitable gift annuities and a pooled income fund and continues to be managed by SunTrust Bank.

The Special Investments hold a number of stand-alone investment accounts that do not fit within the core or planned gift portfolios. These accounts have a wide assortment of objectives and hold a wide variety of investments.

Performance



Core Portfolio Allocation



UNITED STATES NAVAL ACADEMY
ALUMNI ASSOCIATION

Mission of the United States Naval Academy Alumni Association

To serve and support the United States, the naval service, the Naval Academy, and its alumni:

By furthering the highest standards at the Naval Academy;

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

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

UNITED STATES NAVAL ACADEMY
FOUNDATION

Mission of the United States Naval Academy Foundation

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

Consolidated

Financial Report

June 30, 2016

CONTENTS

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The United States Naval Academy Alumni Association, Inc. (the Alumni Association) and United States Naval Academy Foundation, Inc. (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Baltimore, Maryland
October 12, 2016

CONSOLIDATED STATEMENTS OF ***FINANCIAL POSITION***

June 30, 2016 and 2015

	2016	*2015*
ASSETS		
Cash and cash equivalents	$3,339,056	$3,615,317
Accounts receivable and other current assets	657,222	542,614
Contributions receivable, net (Note 2)	33,073,793	28,199,881
Investments (Notes 3 and 4)	214,349,533	215,479,240
Property and equipment, net (Note 6)	6,071,255	6,094,929
Interest in third-party trusts (Note 4)	2,802,371	2,972,582
Total assets	*$260,293,230*	*$256,904,563*
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$2,023,853	$2,358,978
Deposits on life memberships (Note 7)	566,985	563,580
Class savings accounts	2,850,699	2,476,623
Deferred income and deposits	1,607,824	1,665,515
Split-interest agreements	5,799,159	5,476,161
Accrued key employees' retirement (Note 10)	1,199,261	1,096,915
Unamortized life memberships deferred revenue (Note 7)	16,022,719	15,672,646
Total liabilities	*30,070,500*	*29,310,418*
Commitments (Note 4)		
NET ASSETS:		
Unrestricted	16,056,320	18,657,498
Temporarily restricted (Notes 11 and 13)	152,166,584	147,358,926
Permanently restricted (Notes 12 and 13)	61,999,826	61,577,721
Total net assets	*230,222,730*	*227,594,145*
Total liabilities and net assets	*$260,293,230*	*$256,904,563*

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT **OF ACTIVITIES**

Year Ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS AND OTHER SUPPORT:				
Contributions (Note 5)	$8,781,258	$40,004,131	$587,112	$49,372,501
Membership dues	172,101	-	-	172,101
Life member amortization (Note 7)	353,783	-	-	353,783
Merchandise sales	33,121	-	-	33,121
Net investment loss (Note 3)	(362,050)	(2,649,351)	(170,211)	(3,181,612)
Publications and advertising	242,493	-	-	242,493
House activities	305,434	-	-	305,434
Career transition services	700,346	-	-	700,346
Homecoming and conference fees	192,341	-	-	192,341
Fund administrative fee	2,455,753	-	-	2,455,753
Royalties	476,694	-	-	476,694
Travel income	41,895	-	-	41,895
Other	98,185	-	-	98,185
OTHER SUPPORT:				
Change in value of split-interest agreements	(3,949)	(559,829)	3,016	(560,762)
Changes in donors' intent (Note 9)	64	(2,252)	2,188	-
Net assets released from restrictions (Note 9)	31,985,041	(31,985,041)	-	-
Total revenue and gains	*45,472,510*	*4,807,658*	*422,105*	*50,702,273*
EXPENSES:				
PROGRAM SERVICES:				
Support to the Naval Academy (Note 5)	32,142,549	-	-	32,142,549
Alumni publications	1,471,341	-	-	1,471,341
Membership support	2,821,992	-	-	2,821,992
Partnership marketing	573,572	-	-	573,572
Alumni communications	1,149,696	-	-	1,149,696
Career transitions	830,811	-	-	830,811
Total program services	*38,989,961*	*-*	*-*	*38,989,961*
SUPPORTING SERVICES:				
Development	6,153,517	-	-	6,153,517
General and administrative	2,930,210	-	-	2,930,210
Total supporting services	*9,083,727*	*-*	*-*	*9,083,727*
Total expenses	*48,073,688*	*-*	*-*	*48,073,688*
Change in net assets	*(2,601,178)*	*4,807,658*	*422,105*	*2,628,585*
NET ASSETS:				
Beginning	*18,657,498*	*147,358,926*	*61,577,721*	*227,594,145*
Ending	*$16,056,320*	*$152,166,584*	*$61,999,826*	*$230,222,730*

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS AND OTHER SUPPORT:				
Contributions (Note 5)	$10,702,513	$25,378,555	$475,770	$36,556,838
Membership dues	175,572	-	-	175,572
Life member amortization (Note 7)	341,962	-	-	341,962
Merchandise sales	34,915	-	-	34,915
Net investment (loss) income (Note 3)	(71,361)	2,154,509	(98,008)	1,985,140
Publications and advertising	297,962	-	-	297,962
House activities	234,345	-	-	234,345
Career transition services	729,339	-	-	729,339
Homecoming and conference fees	162,080	-	-	162,080
Fund administrative fee	2,324,142	-	-	2,324,142
Royalties	286,320	-	-	286,320
Travel income	46,711	-	-	46,711
Other	230,111	-	-	230,111
OTHER SUPPORT:				
Change in value of split-interest agreements	9,258	(33,259)	280,904	256,903
Changes in donors' intent (Note 9)	(8,025)	8,275	(250)	-
Net assets released from restrictions (Note 9)	19,528,010	(19,528,010)	-	-
Total revenue and gains	*35,023,854*	*7,980,070*	*658,416*	*43,662,340*
EXPENSES:				
PROGRAM SERVICES:				
Support to the Naval Academy (Note 5)	18,696,504	-	-	18,696,504
Alumni publications	1,407,500	-	-	1,407,500
Membership support	2,514,818	-	-	2,514,818
Partnership marketing	550,111	-	-	550,111
Alumni communications	1,115,900	-	-	1,115,900
Career transitions	801,833	-	-	801,833
Total program services	*25,086,666*	-	-	*25,086,666*
SUPPORTING SERVICES:				
Development	6,873,459	-	-	6,873,459
General and administrative	2,281,102	-	-	2,281,102
Total supporting services	*9,154,561*	-	-	*9,154,561*
Total expenses	*34,241,227*	-	-	*34,241,227*
Change in net assets	*782,627*	*7,980,070*	*658,416*	*9,421,113*
NET ASSETS:				
Beginning	*17,874,871*	*139,378,856*	*60,919,305*	*218,173,032*
Ending	*$18,657,498*	*$147,358,926*	*$61,577,721*	*$227,594,145*

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS **OF CASH FLOWS**

Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$2,628,585	$9,421,113
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	450,491	492,595
Change in discount and allowance on contributions receivable	778,446	1,750,255
Amortization of life memberships	(353,783)	(341,962)
Net realized and unrealized losses on investments	5,137,749	1,469,827
Split-interest agreements	322,998	(708,159)
Interest in third-party trusts	170,211	98,008
Contributed securities	(7,822,841)	(7,330,129)
Contributions restricted for long-term investment	(13,751,509)	(3,393,394)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable and other current assets	(114,608)	(59,208)
Contributions receivable	5,094,662	(8,893,145)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(335,125)	514,019
Deposits on life memberships	3,405	174
Class savings accounts	374,076	(176,795)
Deferred income and deposits	(57,691)	(224,826)
Accrued key employees' retirement	102,346	83,030
Unamortized life memberships deferred revenue	703,856	695,723
Net cash used in operating activities	*(6,668,732)*	*(6,602,874)*
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(426,817)	(530,751)
Purchase of investments	(38,252,522)	(43,162,052)
Proceeds from sales or maturities of investments	42,067,321	47,449,253
Net cash provided by investing activities	*3,387,982*	*3,756,450*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term investment	3,004,489	2,852,515
Net cash provided by financing activities	*3,004,489*	*2,852,515*
Net (decrease) increase in cash and cash equivalents	*(276,261)*	*6,091*
CASH AND CASH EQUIVALENTS		
Beginning of year	*3,615,317*	*3,609,226*
End of year	*$3,339,056*	*$3,615,317*
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributed securities	*$7,822,841*	*$7,330,129*

See Notes to Consolidated Financial Statements.

NOTES TO **CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. ORGANIZATION 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 (Loss): Contributions and investment income (loss) are reported as increases (decreases) 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-

NOTE 1. *(CONTINUED)*

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 the contribution is received.

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 Academy 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 Website-based communications. Development expenses are the costs to raise funds for the Naval Academy and the Associations.

Cash and Cash Equivalents: Cash equivalents are short-term investments with original maturities of three months or less at the date of purchase, excluding those short-term investments managed by the Associations' investment managers as part of their long-term investment strategies.

Accounts Receivable: Accounts receivable consist 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, 2016 and 2015.

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: The Associations' investments are recorded at fair value determined in accordance with FASB ASC 820, *Fair Value Measurement*.

Investments are used for operations, class savings accounts, split-interest agreements, board-designated life membership funds, support for the Naval Academy

NOTE 1. *(CONTINUED)*

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 (REITs), 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 ($2,636,808 and $2,476,623 at June 30, 2016 and 2015, respectively) and cash and cash equivalents ($213,891 and $0 at June 30, 2016 and 2015, 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 class's 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 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

NOTE 1. *(CONTINUED)*

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 $484,992 and $59,002 during the years ended June 30, 2016 and 2015, respectively. The fair value of the assets held for all split-interest agreements was $9,317,692 and $9,073,873 as of June 30, 2016 and 2015, 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 calculated in accordance with ASC 815, *Derivatives and Hedging*, by summing the present value of the debt host and the fair value of the embedded derivative. 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 1.0% to 8.2%. The estimated life expectancies used for the charitable gift annuity agreements are from the 2012 Individual Annuity Reserving table and the 2000CM 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 for permanent trusts and change in value for term trusts.

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 1.25% fee paid quarterly based on the cash balance at the beginning of the year. The fees are recorded as fund administrative fees in the consolidated statements of activities.

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

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

NOTE 1. *(CONTINUED)*

uncertain tax positions that require adjustment to the consolidated financial statements to comply with provisions of this guidance.

As of June 30, 2016, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Associations are no longer subject to U.S. federal, state or local tax examinations by tax authorities for years ended before June 30, 2013.

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 years ended June 30, 2016 and 2015, pledges totaling $593,300 and $1,007,325, respectively, were written off by the Associations. The pledges were written off as a result of the change in financial ability of the donors. Bad debt expense is included in Development expense in the consolidated statements of activities and reported in the year the pledge becomes uncollectible.

Accounting Standard Adopted: In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the consolidated statements of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented. The Associations adopted this ASU in 2016. Prior year disclosure in Note 4 has been revised to reflect the retrospective application. The impact of adopting this ASU did not have a significant impact on the financial statements.

Accounting pronouncements not yet adopted: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Associations are in the process of evaluating the impact of this ASU on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the

NOTE 1. *(CONTINUED)*

revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. The impacts of adopting ASU 2014-09 on the Associations' financial statements for subsequent periods have not yet been determined.

Subsequent Events: The Associations have evaluated subsequent events through October 12, 2016, which is the date the consolidated financial statements were available to be issued.

NOTE 2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2016 and 2015, are summarized as follows:

	2016	*2015*
UNCONDITIONAL PROMISES EXPECTED TO BE COLLECTED IN:		
Less than one year	$14,339,306	$10,421,157
One year to five years	19,900,063	19,160,722
More than five years	6,023,010	5,028,142
	40,262,379	*34,610,021*
Less allowance for uncollectible amounts	(3,902,272)	(3,288,228)
Less discount to present value (5%)	(3,286,314)	(3,121,912)
	$33,073,793	*$28,199,881*

NOTE 3. INVESTMENTS

Net investment (loss) income for the years ended June 30, 2016 and 2015, is as follows:

2016	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	$491,955	$2,042,633	$ -	$2,534,588
Net realized gains	494,657	4,723,884	-	5,218,541
Net unrealized losses	(1,267,650)	(9,088,640)	(170,211)	(10,526,501)
Less management fees	(75,002)	(333,238)	-	(408,240)
	$(356,040)	$(2,655,361)	$(170,211)	$(3,181,612)
Transfer to return corpus	*(6,010)*	*6,010*	-	-
Net investment loss	*$(362,050)*	*$(2,649,351)*	*$(170,211)*	*$(3,181,612)*

2015	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	$781,298	$3,186,632	$ -	$3,967,930
Net realized gains	1,625,896	10,196,707	-	11,822,603
Net unrealized losses	(2,392,943)	(10,899,487)	(98,008)	(13,390,438)
Less management fees	(85,612)	(329,343)	-	(414,955)
Net investment (loss) income	*$(71,361)*	*$2,154,509*	*$(98,008)*	*$1,985,140*

During fiscal year 2016, a couple of the permanently restricted endowment funds sustained realized and unrealized investment losses, which resulted in the fund balances falling below corpus. A portion of unrestricted net assets has been reclassified as temporarily restricted to restore these balances to corpus levels. When the permanently restricted endowment funds' balances rise above corpus, the unrestricted net assets that had been previously reclassified as temporarily restricted will be transferred back to unrestricted. Deficiencies of this nature that are reported in unrestricted net assets were $6,010 as of June 30, 2016.

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.

NOTE 4. *(CONTINUED)*

The following tables set forth the fair value hierarchy for those assets measured and reported at fair value on a recurring basis in the consolidated statements of financial position at June 30, 2016 and 2015, respectively:

2016

	TOTAL	*LEVEL 1*	*LEVEL 2*	*LEVEL 3*
Government bonds	$1,138,262	$1,138,262	$ -	$ -
Corporate bonds	456,317	456,317	-	-
Equity securities	71,309	8,659	-	62,650
Domestic equity funds	4,788,505	4,788,505	-	-
International equity funds	2,077,311	2,077,311	-	-
World equity funds	272,881	272,881	-	-
Emerging equity funds	551,056	551,056	-	-
Government bond funds	1,323,562	1,323,562	-	-
Corporate bond funds	508,445	508,445	-	-
Corporate and Government bond funds	3,100,282	3,100,282	-	-
Multi-asset funds	128,139,833	128,139,833	-	-
Equity and fixed income funds	402,645	402,645	-	-
Other – commodities, convertibles and sector funds	174,028	174,028	-	-
	143,004,436	$142,941,786	$ -	$62,650
Cash and cash equivalents (within investments)	9,851,816			
Charitable life insurance policies at cash surrender value	4,743,409			
Share certificates	8,107,796			
Private equity funds (a)	26,937,173			
Private realty and resources funds (a)	5,573,480			
Hedge funds (a)	16,131,423			
Total investments	$214,349,533			

Interest in third party trusts	$2,802,371	$ -	$ -	$2,802,371
Interest in charitable remainder unitrusts with third-party trustees	4,490,064	-	-	4,490,064
Total interests with third parties at fair value	*$7,292,435*	*$ -*	*$ -*	*$7,292,435*

	2015			
	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Government bonds	$1,431,906	$1,431,906	$ -	$ -
Equity securities	62,650	-	-	62,650
Domestic equity funds	4,591,307	4,591,307	-	-
International equity funds	2,210,673	2,210,673	-	-
World equity funds	265,909	265,909	-	-
Emerging equity funds	691,021	691,021	-	-
Government bond funds	4,383,637	4,383,637	-	-
Corporate bond funds	1,055,350	1,055,350	-	-
Corporate and Government bond funds	3,001,349	3,001,349	-	-
World bond funds	48,935	48,935	-	-
Multi-asset funds	134,744,658	134,744,658	-	-
Equity and fixed income funds	357,399	357,399	-	-
Other – commodities, convertibles and sector funds	340,072	340,072	-	-
	153,184,866	$153,122,216	$ -	$62,650
Cash and cash equivalents (within investments)	3,644,438			
Charitable life insurance policies at cash surrender value	4,872,706			
Share certificates	7,977,128			
Private equity funds (a)	23,198,107			
Private realty and resources funds (a)	5,938,320			
Hedge funds (a)	16,651,960			
Limited partnerships (a)	11,715			
Total investments	$215,479,240			
Interest in third party trusts	$2,972,582	$ -	$ -	$2,972,582
Interest in charitable remainder unitrusts with third-party trustees	5,192,842	-	-	5,192,842
Total interests with third parties at fair value	*$8,165,424*	*$ -*	*$ -*	*$8,165,424*

(a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at net asset value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

NOTE 4. *(CONTINUED)*

Interest in charitable remainder unitrusts with third-party trustees has been included on the consolidated statements of financial position within contributions receivable.

NOTE 4. *(CONTINUED)*

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

	EQUITY SECURITIES	INTEREST IN THIRD-PARTY TRUSTS	INTEREST IN CHARITABLE REMAINDER UNITRUSTS WITH THIRD-PARTY TRUSTEES	TOTAL
Balance, June 30, 2014	$ -	$3,070,590	$5,153,884	$8,224,474
Unrealized gains	-	(98,008)	-	(98,008)
Purchases/Acquisitions	62,650	-	-	62,650
Change in value	-	-	38,958	38,958
Balance, June 30, 2015	62,650	2,972,582	5,192,842	8,228,074
Unrealized losses	-	(170,211)	-	(170,211)
Sales/Distributions	-	-	(227,862)	(227,862)
Change in value	-	-	(474,916)	(474,916)
Balance, June 30, 2016	$62,650	$2,802,371	$4,490,064	$7,355,085
Unrealized losses and change in value relating to assets still held as of June 30, 2016	*$ -*	*$(170,211)*	*$(474,916)*	*$(645,127)*

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.

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

Private Stock: The Associations were gifted shares in private stock. The stock is valued based upon an independent appraisal of the company's common shares done using both a market value and income approach at the time the gift was made during the fiscal year ended June 30, 2015. As a minority owner, the Associations have no control and an indeterminate ability to liquidate.

Private Equity Funds: Substantially all of the Associations' investments in private equity funds represent interests 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. The investments in these funds of funds

NOTE 4. *(CONTINUED)*

private equity investment vehicles are presented in the accompanying consolidated financial statements at fair value, based on an amount equal to the Associations' pro-rata interest in the net assets, which are valued at fair value consistent with the measurement principles in FASB ASC Topic 946, *Financial Services – Investment Companies*, of such funds of funds as reported by the principal investment manager.

The private equity vehicles have terms ranging from 12 to 15 years with respective expiration dates from 2017 to 2027. 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, 2016, the Associations had uncalled commitments of $24,383,757, which represents 43% 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 funds 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 in the same manner as private equity funds.

The invested private realty and resources vehicles have terms ranging from 13 to 15 years with respective expiration dates from 2017 to 2028. 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 $2,517,891 as of June 30, 2016, representing 22% 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.

The vehicle has no set termination date. The anniversary date for half the shares is June 30, and for the other half is December 31. Full redemptions may be made on an anniversary date with a 100-day notice to the manager. The shares also allow the Associations to elect to take annual periodic partial redemptions of 4%, 5% or 6%. The Associations have not elected to take any periodic partial redemptions. 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 and Interest in Charitable Remainder Unitrusts with Third-Party Trustees: The Associations' staff estimates their beneficial interest in the third-party trusts using the discounted 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 $284,928 and $297,816 in 2016 and 2015, 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 $95,453 and $79,004 in 2016 and 2015, respectively.

During 2016 and 2015, the Associations received noncash donations of assets for use by the Naval Academy valued at $3,701,558 and $229,233, 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, 2016 and 2015, is summarized as follows:

	2016	*2015*
Land	$753,197	$753,197
Buildings and improvements	8,953,151	8,852,388
Furniture and equipment	1,123,716	905,575
Computer equipment and software	1,240,886	1,132,973
	12,070,950	*11,644,133*
Less accumulated depreciation and amortization	(5,999,695)	(5,549,204)
	$6,071,255	*$6,094,929*

Depreciation expense was $450,491 and $492,595 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7. LIFE MEMBERSHIPS

In 1976, the Alumni Association started its life membership program, which enables midshipmen to pay a specified life membership fee prior to graduation. In exchange for this fee, members receive a subscription to *Shipmate* magazine and various other service benefits and opportunities. The Alumni Association records the midshipmen's fees as deposits on life memberships until the respective class graduation. At June 30, 2016 and 2015, the Alumni Association held $566,985 and $563,580, respectively, of midshipmen life membership deposits. 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, 2016 and 2015, $585,702 and $583,686, respectively, relating to the graduating classes of 2016 and 2015, were reclassified as unamortized life memberships deferred revenue. Payments from alumni who join the life membership program after graduation are recorded as unamortized life memberships 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 PAYABLE AND REVOLVING LINE OF CREDIT

On January 31, 2012, the Associations obtained a $10,000,000 note from a bank under an unsecured, open-end revolving line of credit expiring in January 2017 for use as an operating line of credit. Principal is due on demand and interest is based on the 30-day London Interbank Offered Rate (LIBOR) index rate plus 1.1% (1.57% and 1.29% at June 30, 2016 and 2015, respectively) and is payable monthly. No draws on this line of credit were made during the fiscal years ended June 30, 2016 and 2015 and no balance is outstanding as of June 30, 2016.

On January 31, 2012, the Associations obtained a $10,000,000 note from a bank under an unsecured non-revolving line of credit expiring in January 2017 for short-term cash flow needs on specific restricted projects. Principal is due on demand. Interest, which is due in monthly installments, is based on the 30-day LIBOR index rate plus 1.1% (1.57% and 1.29% at June 30, 2016 and 2015, respectively). No draws on this note were made during the fiscal years ended June 30, 2016 and 2015 and no balance is outstanding as of June 30, 2016.

NOTE 9. NET ASSETS RELEASED FROM RESTRICTIONS AND CHANGES IN DONORS' INTENT

Net assets of $31,985,041 and $19,528,010 for the years ended June 30, 2016 and 2015, 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, 2016, represent reclassifications of $64 to unrestricted net assets and $2,188 to permanently restricted net assets from temporarily restricted net assets. Amounts shown as changes in donors' intent for the year ended June 30, 2015, represent reclassifications of $8,025 from unrestricted net assets and $250 from permanently restricted net assets to temporarily 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. On a discretionary basis, the Alumni Association matches employees' contributions up to 5% of base salary. An independent trustee holds the assets of the Plan. During the years ended June 30, 2016 and 2015, the Alumni Association made contributions of $261,625 and $239,376, respectively, on behalf of its eligible employees.

457 Plans: The Alumni Association has agreements with 10 key employees and former 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. Total retirement expense under this plan for the years ended June 30, 2016 and 2015, was $243,000 and $214,000, respectively.

At June 30, 2016 and 2015, the Alumni Association's liability for these plans was $1,199,261 and $1,096,915, 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.

	2016	*2015*
Naval Academy Centers of Excellence:		
Academic	$65,484,763	$61,675,052
Admissions	8,903,605	9,229,483
Athletics	29,235,804	25,675,150
Character (ethics)	16,217,401	16,617,975
Leadership	10,411,678	11,046,273
Support to the Naval Academy not yet assigned to a center of excellence	16,282,259	16,865,208
Purpose-restricted assets	*146,535,510*	*141,109,141*
Time-restricted assets	5,631,074	6,249,785
Total temporarily restricted net assets	*$152,166,584*	*$147,358,926*

NOTE 12. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2016 and 2015, are invested to fund the following:

	2016	*2015*
Endowments supporting U.S. Naval Academy	$53,076,895	$52,484,579
Endowments supporting athletics and scholarship	6,076,687	6,246,898
Endowments supporting operations	2,846,244	2,846,244
Total permanently restricted net assets	*$61,999,826*	*$61,577,721*

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 over 100 individual funds established for a variety of purposes. These endowment funds are donor-restricted. The Associations do not have any board-designated endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Trustees of the Association and the Board of Directors of the Foundation have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Associations classify as permanently restricted net assets: *(a)* the original value of gifts donated to the permanent endowment; *(b)* the original value of subsequent gifts to the permanent endowment; and *(c)* accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Associations in a manner consistent with the standard of prudence prescribed by UPMIFA. Accordingly, the Associations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Associations and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Associations

(7) The investment policies of the Associations

NOTE 13. *(CONTINUED)*

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 2016.

Changes in endowed net assets for the fiscal years ended June 30, 2016 and 2015, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 30, 2014	*$ -*	*$31,092,364*	*$60,919,305*	*$92,011,669*
Interest, dividends and realized losses - net of investment expense	-	7,047,308	-	7,047,308
Net depreciation	-	(5,836,568)	(98,008)	(5,934,576)
Change in value	-	11,839	280,904	292,743
Contributions	-	-	475,770	475,770
Change in donor intent	-	(20,868)	(250)	(21,118)
Endowment net assets, June 30, 2015	*-*	*32,294,075*	*61,577,721*	*93,871,796*
Interest, dividends and realized losses - net of investment expense	-	3,188,792	-	3,188,792
Net depreciation	-	(4,400,514)	(170,211)	(4,570,725)
Change in value	-	3,391	3,016	6,407
Contributions	-	-	587,112	587,112
Change in donor intent	-	8,275	2,188	10,463
Endowment net assets, June 30, 2016	*$ -*	*$31,094,019*	*$61,999,826*	*$93,093,845*

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
The United States Naval Academy Foundation, Inc.
Annapolis, Maryland

We have audited the consolidated financial statements of The United States Naval Academy Alumni Association, Inc. (the Alumni Association) and United States Naval Academy Foundation, Inc. (the Foundation) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 through 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Baltimore, Maryland
October 12, 2016

STATEMENTS **OF FINANCIAL POSITION**

June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$1,171,004	$1,862,028
Accounts receivable and other current assets	482,478	416,605
Contributions receivable, net	1,419,305	887,930
Investments	66,461,987	70,031,513
Property and equipment, net	3,173,608	3,216,528
Intercompany receivables	3,226,878	1,810,125
Total assets	*$75,935,260*	*$78,224,729*
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$1,734,767	$1,624,504
Deposits on life memberships	566,985	563,580
Class savings accounts	2,850,699	2,476,623
Deferred income and deposits	843,308	910,427
Split-interest agreements	788,588	792,733
Accrued key employees' retirement	1,199,261	1,096,915
Unamortized life memberships deferred revenue	16,022,719	15,672,646
Total liabilities	*24,006,327*	*23,137,428*
NET ASSETS		
Unrestricted	6,205,682	8,532,076
Temporarily restricted	23,075,342	24,016,080
Permanently restricted	22,647,909	22,539,145
Total net assets	*51,928,933*	*55,087,301*
Total liabilities and net assets	*$75,935,260*	*$78,224,729*

STATEMENT **OF ACTIVITIES**

Year Ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	$491,135	$1,888,013	$114,668	$2,493,816
Membership dues	172,101	-	-	172,101
Life member amortization	353,783	-	-	353,783
Merchandise sales	33,121	-	-	33,121
Net investment loss	(368,568)	(327,365)	-	(695,933)
Publications and advertising	242,493	-	-	242,493
House activities	305,434	-	-	305,434
Intercompany support	2,189,776	-	-	2,189,776
Career transition services	700,346	-	-	700,346
Homecoming and conference fees	192,341	-	-	192,341
Royalties	476,694	-	-	476,694
Travel income	41,895	-	-	41,895
Other	4,912	-	-	4,912
OTHER SUPPORT				
Change in value of split-interest agreements	(24,345)	(61,563)	(7,154)	(93,062)
Changes in donors' intent	50,396	41,493	1,250	93,139
Net assets released from restrictions	2,481,316	(2,481,316)	-	-
Total revenue, gains and other support	*7,342,830*	*(940,738)*	*108,764*	*6,510,856*
EXPENSES				
Support to the Naval Academy	2,467,936	-	-	2,467,936
Audit and accounting	64,280	-	-	64,280
Awards and gifts	22,959	-	-	22,959
Bad debt expense	53,508	-	-	53,508
Conferences	244,207	-	-	244,207
Cost of goods	22,657	-	-	22,657
Cultivation	14,682			14,682
Depreciation	214,436	-	-	214,436
Equipment rental	311,673	-	-	311,673
Insurance	105,053	-	-	105,053
Legal fees	63,143	-	-	63,143
Licenses	50,595	-	-	50,595
Membership dues	4,216	-	-	4,216
Miscellaneous	131,255	-	-	131,255
Occupancy	231,632	-	-	231,632
Postage and shipping	175,220	-	-	175,220
Printing and publications	450,035	-	-	450,035
Professional and contract services	1,895,543	-	-	1,895,543
Salaries and benefits	3,624,150	-	-	3,624,150
Shared information management	(827,126)	-	-	(827,126)
Supplies	90,966	-	-	90,966
Telephone	34,068	-	-	34,068
Training	72,981	-	-	72,981
Travel and transportation	151,155	-	-	151,155
Total expenses	*9,669,224*	*-*	*-*	*9,669,224*
Change in net assets	*(2,326,394)*	*(940,738)*	*108,764*	*(3,158,368)*
Net assets at beginning of year	*8,532,076*	*24,016,080*	*22,539,145*	*55,087,301*
Net assets end of year	*$6,205,682*	*$23,075,342*	*$22,647,909*	*$51,928,933*

STATEMENTS **OF FINANCIAL POSITION**

June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$2,168,052	$1,753,289
Accounts receivable and other current assets	174,744	126,009
Contributions receivable, net	31,654,488	27,311,951
Investments	147,887,546	145,447,727
Property and equipment, net	2,897,647	2,878,401
Interest in third-party trusts	2,802,371	2,972,582
Total assets	*$187,584,848*	*$180,489,959*
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$289,086	$734,474
Deferred income	764,516	755,088
Split-interest agreements	5,010,571	4,683,428
Intercompany payables	3,226,878	1,810,125
Total liabilities	*9,291,051*	*7,983,115*
NET ASSETS		
Unrestricted	14,432,014	14,758,711
Temporarily restricted	124,509,866	118,709,557
Permanently restricted	39,351,917	39,038,576
Total net assets	*178,293,797*	*172,506,844*
Total liabilities and net assets	*$187,584,848*	*$180,489,959*

STATEMENT **OF ACTIVITIES**

Year Ended June 30, 2016

REVENUE, GAINS, AND OTHER SUPPORT	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Contributions	$8,987,496	$37,418,745	$472,444	$46,878,685
Fund administrative fee	2,455,753	-	-	2,455,753
Net investment income (loss)	31,148	(2,346,616)	(170,211)	(2,485,679)
Intercompany support	(2,189,776)	-	-	(2,189,776)
Other	87,265	6,008	-	93,273
OTHER SUPPORT				
Change in value of split-interest agreements	47,492	(525,362)	10,170	(467,700)
Changes in donors' intent	(50,332)	(43,745)	938	(93,139)
Net assets released from restrictions	28,708,721	(28,708,721)	-	-
Total revenue, gains and other support	*38,077,767*	*5,800,309*	*313,341*	*44,191,417*
EXPENSES				
Support to the Naval Academy	29,674,613	-	-	29,674,613
Audit and accounting	78,538	-	-	78,538
Awards and gifts	8,470	-	-	8,470
Bad debt expense	540,793	-	-	540,793
Conferences	106,766	-	-	106,766
Consulting – advantage	411,400	-	-	411,400
Depreciation	236,055	-	-	236,055
Donor cultivation	231,022	-	-	231,022
Equipment rental	39,220	-	-	39,220
Insurance	51,702	-	-	51,702
Legal fees	68,964	-	-	68,964
Membership dues	9,322	-	-	9,322
Miscellaneous	75,186	-	-	75,186
Occupancy	118,755	-	-	118,755
Postage and shipping	76,235	-	-	76,235
Printing and publications	125,156	-	-	125,156
Professional and contract services	526,828	-	-	526,828
Salaries and benefits	4,953,686	-	-	4,953,686
Shared information management	827,126	-	-	827,126
Supplies	42,188	-	-	42,188
Training	37,956	-	-	37,956
Travel and transportation	164,483	-	-	164,483
Total expenses	*38,404,464*	*-*	*-*	*38,404,464*
Change in net assets	*(326,697)*	*5,800,309*	*313,341*	*5,786,953*
Net assets at beginning of year	*14,758,711*	*118,709,557*	*39,038,576*	*172,506,844*
Net assets end of year	*$14,432,014*	*$124,509,866*	*$39,351,917*	*$178,293,797*

The United States Naval Academy Alumni Association, Inc.

As of June 30, 2016

Mission of The United States Naval Academy Alumni Association

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

By furthering the highest standards at the Naval Academy; By seeking out, informing, encouraging and assisting outstanding, qualified young men and women to pursue careers as officers in the Navy and Marine Corps through the Naval Academy; and By initiating and sponsoring activities which will perpetuate the history, traditions, memories and growth of the Naval Academy and bind Alumni together in support of the highest ideals of command, citizenship and government.

United States Naval Academy
Alumni Association

United States Naval Academy Foundation, Inc.

As of June 30, 2016

Mission of the United States Naval Academy Foundation

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

UNITED STATES NAVAL ACADEMY
FOUNDATION

WWW.USNA.COM

410.295.4000
247 King George Street
Annapolis, MD 21402