



MAKING HISTORY

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

**ANNUAL REPORT
2017**

MESSAGE FROM THE CHAIRMEN

It's immediately clear to anyone who sets foot on the Yard that the Naval Academy is far more than a college. The individuals who make up the Brigade of Midshipmen are far more than mere students. The classes they take, the experiences they have, the responsibilities they seize are focused on a far greater purpose than simple success.

The Naval Academy education prepares these young men and women to change the face of history. To face new adversaries and forge new alliances. To foster understanding and cooperation in politically and culturally complicated circumstances. To harness the power of emerging technology and the possibilities of innovation and exploration. To protect and defend the United States and their fellow Americans.

It's a tall order—and it's one Naval Academy alumni have embraced since the Academy's founding more than 170 years ago. The Naval Academy Alumni Association and Foundation and their volunteer leaders stand ready to do their part in supporting the

Academy and the Brigade: maintaining regular and robust dialogue with our Naval Academy colleagues about their evolving goals and objectives; raising the resources needed to fully fund the priorities outlined in *Naval Academy Strategic Plan 2020*; providing and expanding programs and services that strengthen the Naval Academy alumni community worldwide; and serving as champions of the Naval Academy throughout our personal and professional networks.

As alumni and friends of the Academy, you have and will continue to play an integral role in the Academy's ability to fulfill its mission and realize its potential. As you witness the milestones and achievements of today's midshipmen as well as their growing impact as Navy and Marine Corps officers, know that your faith, commitment and investment played a part in shaping that history.

For your profound engagement with and generosity to 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 AND CEO

The Naval Academy and the Brigade of Midshipmen have a long and illustrious tradition of exceeding expectations, shattering records and making history. Last year was no exception. Academic attrition dropped to 1 percent while the graduation rate topped 88 percent. The Class of 2017 included Rhodes, Gates Cambridge, Schwarzman and Hertz Foundation Scholars. The Naval Academy won the National Security Agency's Cyber Defense Exercise. *Forbes* magazine ranked the Academy first among the nation's public colleges. Midshipmen athletic teams won the Patriot League President's Cup for the fourth time in five years. And the Academy continued to attract a pipeline of the most accomplished and committed young men and women in the country eager to face the challenges of midshipman life and the responsibilities of becoming Navy and Marine Corps officers.

As the Naval Academy Alumni Association and Foundation, we support the Brigade with margin of excellence gifts that enable exceptional performance and achievement on the Yard each year. And in fiscal year 2017, we provided a superior level of resources thanks to your engagement and generosity. We raised \$55.9 million in total contributions and provided more than \$31 million in support to the Naval Academy. Our assets neared \$295 million.

These vital resources are integral to the Naval Academy's continued ability to realize the accomplishments for which it has become so well known—and to the Naval Academy Alumni Association's ongoing expansion and

improvement of the programs and services that make the Naval Academy network one of the world's strongest alumni communities. Today, Alumni Association membership stands at nearly 62,000 worldwide. The past year has included a number of milestones and achievements among Alumni Association initiatives, including the fifth anniversary of the Honor our Fallen Heroes events recognizing alumni killed in action and operational losses, our annual Alumni Association golf tournament, an all-time high in reunion participation and continued growth in the Alumni Mentoring Program and the Service Academy Career Conference.

I want to close with a special note of thanks to our Chief Financial Officer and Treasurer, Captain Henry Sanford, USN (Ret.), who retires this year after 16 years of distinguished service to the Naval Academy Alumni Association and Foundation. We are proud of our prudent stewardship of resources in support of the Academy and our alumni community, and Hank has played an enormous role in this success—as, of course, have all of you. Thank you for your enduring commitment and generosity.

Go Navy!



Byron F. Marchant '78
President and CEO



MAKING HISTORY

Bancroft. Halsey. Nimitz. Brown. Rickover. The names that grace the most recognizable buildings on the Naval Academy Yard resonate not just because of the facilities' prominent role in today's midshipman experience, but because they are named for individuals who helped shape the character of the Academy ... and the course of history.

(continued on page 7)



Today's midshipmen will as well. One day, some of their names will inspire the same degree of pride as the legends who have become the namesakes of Academy landmarks, as well as those more recent alumni whose contributions to American military might, scientific achievement and global diplomacy will be studied and celebrated for generations: Holloway. Lovell. Stockdale. Carter.

Those future Navy and Marine Corps officers will reach those heights driven and supported by a moral, mental and physical education that, like these distinguished individuals, rejects the status quo, demands

total of \$49 million. Those contributions helped make possible more than \$31 million in support for the Academy—resources which have funded Academy priorities including a permanent distinguished chair in space science established by Tig Krekel '75; a Leadership Innovation Lab in the Stockdale Center for Ethical Leadership made possible by Boeing; a Cyber Operations Center supported by Lockheed Martin; a wide-ranging academic excellence fund created by Ernst Volgenau '55 and his wife, Sara, and the essential resurfacing of Ingram Field's track—a project made possible in large measure by the Naval Academy Annual Fund.

Contributions topped \$55.9 million this year—an increase of 13 percent over last year's record total of \$49 million.

excellence, celebrates innovation and accepts, even embraces, risk and possible sacrifice. This education will be marked by emerging disciplines, eye-opening international experiences, new approaches to project-based learning and a refusal to be confined by conventional solutions.

Every step of the way, the Brigade of Midshipmen and the faculty, staff and administrators who serve them will be supported by the U.S. Naval Academy Alumni Association and Foundation, which is making history of its own in terms of the resources provided to fuel the Academy's mission and strategic objectives. Total contributions supporting the Academy reached an all-time high of \$55.9 million this fiscal year, an increase of 13 percent over last year's record

These added resources have also helped bolster the programs and services of the Alumni Association, including the launch of a pilot program for Shared Interest Groups, an examination and strengthening of the Distinguished Graduate Award selection process and an upcoming re-envisioning and re-design of the Alumni Association and Foundation's website and electronic footprint. These initiatives, which focus on serving and strengthening the Naval Academy network far beyond the years midshipmen spend in Annapolis, stand alongside the academic, athletic and ethical work of the Academy when it comes to creating an environment that prepares individuals for greatness and providing them the community they need to realize their potential.

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.

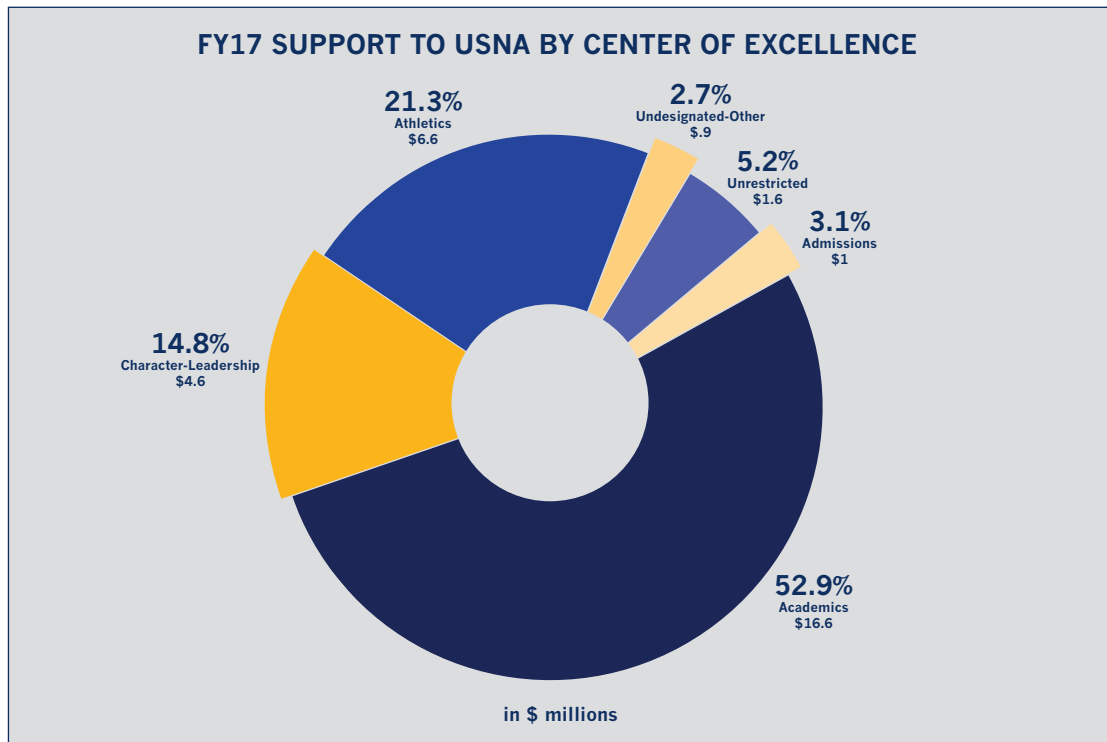
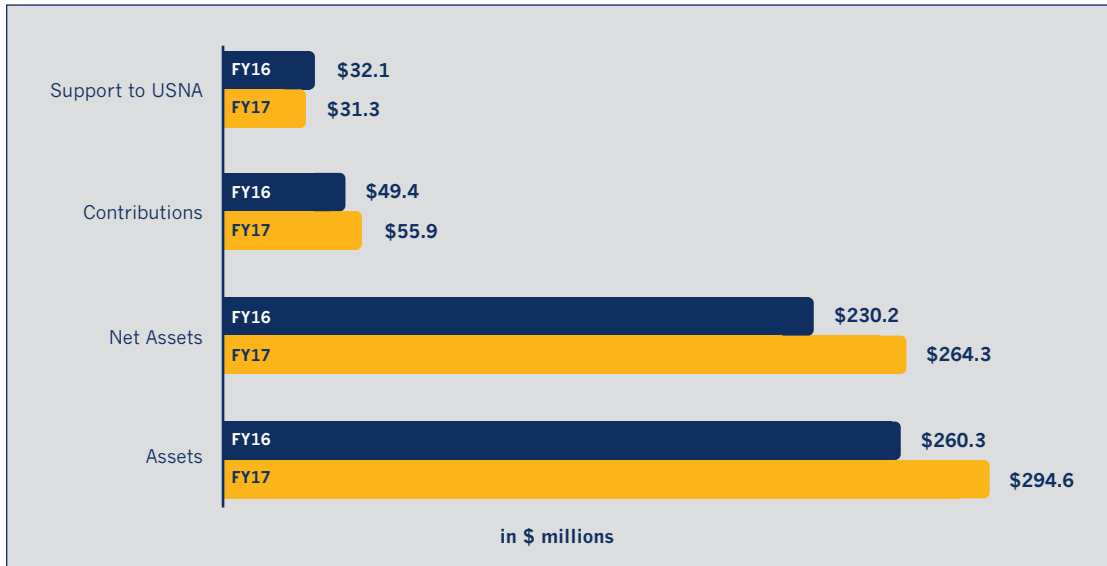
With this letter and the publication of this report, I end my 16-year tour as chief financial officer and treasurer of the Naval Academy Alumni Association and Foundation and embark on a new phase in my career: retirement. It has been an extraordinary honor and privilege to work alongside our dedicated volunteer leaders and the donors who have been so central to the Alumni Association and Foundation's ability to serve the Naval Academy and Brigade of Midshipmen. I look forward to continuing to witness the growth and success of these remarkable institutions. I thank you for your engagement and generosity, and pledge my continued support to the Alumni Association, Foundation and Academy.



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

FISCAL YEAR ENDING JUNE 30, 2017

FINANCIAL HIGHLIGHTS

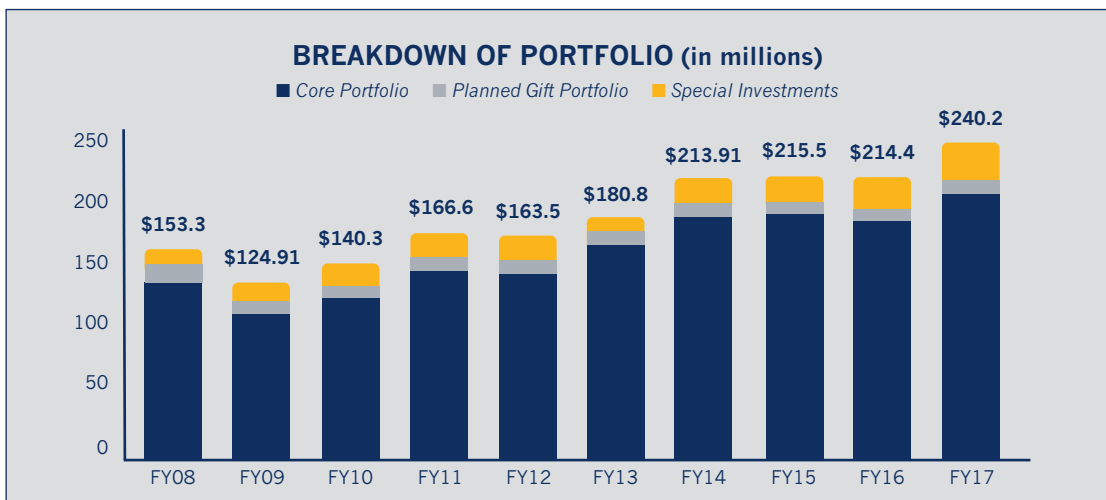
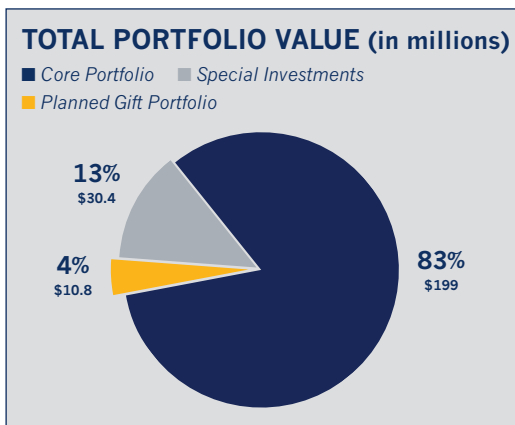


PORTFOLIO REVIEW

The total investment portfolio of the Alumni Association and Foundation was valued at \$240.2 million on June 30, 2017. This represents a market value increase of \$25.9 million from the previous year. This increase consists of \$20.2 million in net investment gains and \$5.7 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 below.

The Core Portfolio holds the majority of endowed and long-term restricted gift funds. It's a pooled fund managed by The Investment Fund for Foundations (TIFF) under the oversight of the Alumni Association and Foundation's 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.

As the chart below indicates, the Core Portfolio returned 10.7 percent for the year ending June 30, 2017, a strong absolute return but one that lagged the composite Policy Portfolio benchmark and the passive benchmark. The 12-month period ending June 30 was a good one for diversified portfolios like the Core Portfolio. While our

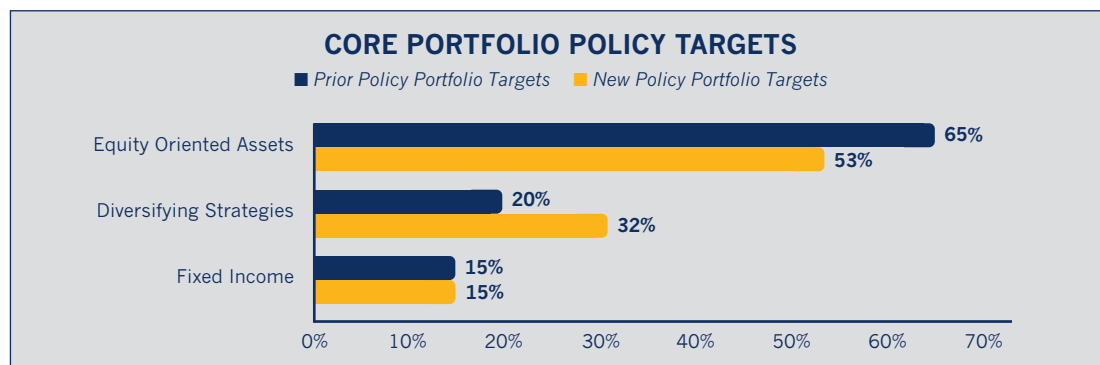
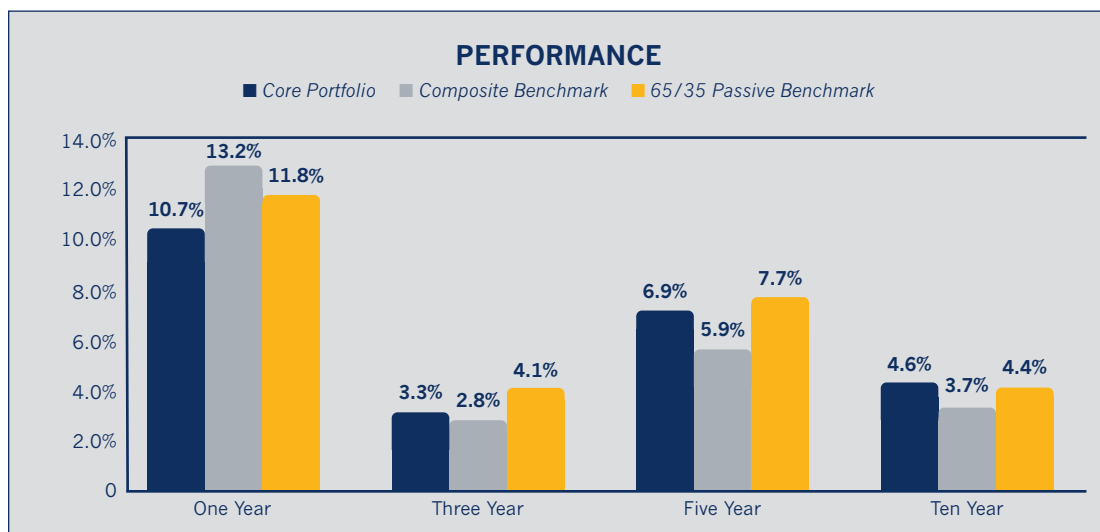


return was below our benchmarks, the Core Portfolio's performance continues to be solid over the long periods. During the year, our leadership and the Joint Investment Committee, with an eye toward focusing on capital preservation, assessed the return and risk parameters of the Core Portfolio and several alternative portfolios and decided in May to implement a new Policy Portfolio (i.e. new asset allocation targets) that still provides a target return that meets the needs of our endowments but with better downside risk parameters. This entailed shifting about 12 percent of the portfolio from equity-type strategies to diversifying strategies. This shift started in the month of June and was essentially complete as of August 1, 2017.

The "Core Portfolio Policy Targets" chart below shows the old and new policy portfolio targets as of July 1, 2017.

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. This portfolio had a healthy increase during the year both due to investment gains and growth in new planned gifts.

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.





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.

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410.295.4000

**247 KING GEORGE STREET
ANNAPOLIS, MD 21402**

CONSOLIDATED FINANCIAL REPORT

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The United States Naval Academy Alumni Association, Inc.

To the Board of Directors of
United States Naval Academy Foundation, Inc.

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, 2017 and 2016, 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, 2017 and 2016, 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 vs LLP

Baltimore, Maryland

October 6, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$5,875,837	\$3,339,056
Accounts receivable and other current assets	648,215	657,222
Contributions receivable, net (Note 2)	38,933,755	33,073,793
Investments (Notes 3 and 4)	240,244,075	214,349,533
Property and equipment, net (Note 6)	5,936,563	6,071,255
Interest in third-party trusts (Note 4)	2,997,250	2,802,371
Total assets	\$294,635,695	\$260,293,230

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$1,986,701	\$2,023,853
Deposits on life memberships (Note 7)	563,880	566,985
Class savings accounts	2,728,803	2,850,699
Deferred income and deposits	772,082	1,607,824
Split-interest agreements	6,565,295	5,799,159
Accrued key employees' retirement (Note 10)	1,387,683	1,199,261
Unamortized life memberships deferred revenue (Note 7)	16,348,283	16,022,719
Total liabilities	30,352,727	30,070,500

Commitments (Note 4)

NET ASSETS:

Unrestricted	18,637,834	16,056,320
Temporarily restricted (Notes 11 and 13)	184,110,495	152,166,584
Permanently restricted (Notes 12 and 13)	61,534,639	61,999,826
Total net assets	264,282,968	230,222,730
Total liabilities and net assets	\$294,635,695	\$260,293,230

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<i>REVENUE, GAINS AND OTHER SUPPORT:</i>				
Contributions (Note 5)	\$10,486,834	\$44,115,917	\$1,315,881	\$55,918,632
Membership dues	152,959	-	-	152,959
Life member amortization (Note 7)	365,588	-	-	365,588
Merchandise sales	34,530	-	-	34,530
Net investment income (Note 3)	2,623,594	16,311,108	194,879	19,129,581
Publications and advertising	227,073	-	-	227,073
House activities	246,727	-	-	246,727
Career transition services	713,167	-	-	713,167
Homecoming and conference fees	170,985	-	-	170,985
Fund administrative fee	2,536,179	-	-	2,536,179
Royalties	545,900	-	-	545,900
Travel income	58,052	-	-	58,052
Other	65,986	-	-	65,986
<i>OTHER SUPPORT:</i>				
Change in value of split-interest agreements	149,025	1,138,143	21,778	1,308,946
Changes in donors' intent (Note 9)	(8,750)	2,006,475	(1,997,725)	-
Net assets released from restrictions (Note 9)	31,627,732	(31,627,732)	-	-
<i>Total revenue and gains</i>	<i>49,995,581</i>	<i>31,943,911</i>	<i>(465,187)</i>	<i>81,474,305</i>
<i>EXPENSES:</i>				
<i>PROGRAM SERVICES:</i>				
Support to the Naval Academy (Note 5)	31,227,498	-	-	31,227,498
Alumni publications	1,414,013	-	-	1,414,013
Membership support	2,903,806	-	-	2,903,806
Partnership marketing	589,816	-	-	589,816
Alumni communications	1,158,227	-	-	1,158,227
Career transitions	845,001	-	-	845,001
<i>Total program services</i>	<i>38,138,361</i>	<i>-</i>	<i>-</i>	<i>38,138,361</i>
<i>SUPPORTING SERVICES:</i>				
Development	6,712,346	-	-	6,712,346
General and administrative	2,563,360	-	-	2,563,360
<i>Total supporting services</i>	<i>9,275,706</i>	<i>-</i>	<i>-</i>	<i>9,275,706</i>
<i>Total expenses</i>	<i>47,414,067</i>	<i>-</i>	<i>-</i>	<i>47,414,067</i>
<i>Change in net assets</i>	<i>2,581,514</i>	<i>31,943,911</i>	<i>(465,187)</i>	<i>34,060,238</i>
<i>NET ASSETS:</i>				
<i>Beginning</i>	<i>16,056,320</i>	<i>152,166,584</i>	<i>61,999,826</i>	<i>230,222,730</i>
<i>Ending</i>	<i>\$18,637,834</i>	<i>\$184,110,495</i>	<i>\$61,534,639</i>	<i>\$264,282,968</i>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<i>REVENUE, GAINS AND OTHER SUPPORT:</i>				
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
<i>OTHER SUPPORT:</i>				
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)	-	-
<i>Total revenue and gains</i>	<i>45,472,510</i>	<i>4,807,658</i>	<i>422,105</i>	<i>50,702,273</i>
<i>EXPENSES:</i>				
<i>PROGRAM SERVICES:</i>				
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
<i>Total program services</i>	<i>38,989,961</i>	<i>-</i>	<i>-</i>	<i>38,989,961</i>
<i>SUPPORTING SERVICES:</i>				
Development	6,153,517	-	-	6,153,517
General and administrative	2,930,210	-	-	2,930,210
<i>Total supporting services</i>	<i>9,083,727</i>	<i>-</i>	<i>-</i>	<i>9,083,727</i>
<i>Total expenses</i>	<i>48,073,688</i>	<i>-</i>	<i>-</i>	<i>48,073,688</i>
<i>Change in net assets</i>	<i>(2,601,178)</i>	<i>4,807,658</i>	<i>422,105</i>	<i>2,628,585</i>
<i>NET ASSETS:</i>				
<i>Beginning</i>	<i>18,657,498</i>	<i>147,358,926</i>	<i>61,577,721</i>	<i>227,594,145</i>
<i>Ending</i>	<i>\$16,056,320</i>	<i>\$152,166,584</i>	<i>\$61,999,826</i>	<i>\$230,222,730</i>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Change in net assets	\$34,060,238	\$2,628,585
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	508,685	450,491
Change in discount and allowance on contributions receivable	904,563	778,446
Amortization of life memberships	(365,588)	(353,783)
Net realized and unrealized (gains) losses on investments	(18,136,270)	5,137,749
Split-interest agreements	766,136	322,998
Interest in third-party trusts	(194,879)	170,211
Contributed securities	(7,952,085)	(7,822,841)
Contributions restricted for long-term investment	(1,643,479)	(13,751,509)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable and other current assets	9,007	(114,608)
Contributions receivable	(10,534,677)	5,094,662
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(37,152)	(335,125)
Deposits on life memberships	(3,105)	3,405
Class savings accounts	(121,896)	374,076
Deferred income and deposits	(835,742)	(57,691)
Accrued key employees' retirement	188,422	102,346
Unamortized life memberships deferred revenue	691,152	703,856
<i>Net cash used in operating activities</i>	<i>(2,696,670)</i>	<i>(6,668,732)</i>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Purchases of property and equipment	(373,993)	(426,817)
Purchase of investments	(74,472,396)	(38,252,522)
Proceeds from sales or maturities of investments	74,666,209	42,067,321
<i>Net cash (used in) provided by investing activities</i>	<i>(180,180)</i>	<i>3,387,982</i>
<i>CASH FLOWS FROM FINANCING ACTIVITIES:</i>		
Proceeds from contributions restricted for long-term investment	5,413,631	3,004,489
<i>Net cash provided by financing activities</i>	<i>5,413,631</i>	<i>3,004,489</i>
<i>Net increase (decrease) in cash and cash equivalents</i>	<i>2,536,781</i>	<i>(276,261)</i>
<i>CASH AND CASH EQUIVALENTS</i>		
<i>Beginning of year</i>	<i>3,339,056</i>	<i>3,615,317</i>
<i>End of year</i>	<i>\$5,875,837</i>	<i>\$3,339,056</i>
<i>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</i>		
<i>Contributed securities</i>	<i>\$7,952,085</i>	<i>\$7,822,841</i>

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.

NOTE 1. (CONTINUED)

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-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 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 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 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, 2017 and 2016.

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%.

NOTE 1. (CONTINUED)

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 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, hedge funds and private equity 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, if purchased, or at the fair value at the date of contribution, if donated, 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 (\$2,675,177 and \$2,636,808 at June 30, 2017 and 2016, respectively) and cash and cash equivalents (\$53,626 and \$213,891 at June 30, 2017 and 2016, 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.

NOTE 1. (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 \$447,312 and \$484,992 during the years ended June 30, 2017 and 2016, respectively. The fair value of the assets held for all split-interest agreements was \$10,817,885 and \$9,317,692 as of June 30, 2017 and 2016, 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.

NOTE 1. (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 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 uncertain tax positions that require adjustment to the consolidated financial statements to comply with provisions of this guidance.

As of June 30, 2017, 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, 2014.

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, 2017 and 2016, pledges totaling \$1,163,539 and \$593,300, 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 pronouncements issued but 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.

NOTE 1. (CONTINUED)

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 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.

Reclassifications: Certain 2016 amounts have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on the previously reported net income or net assets.

Subsequent events: The Associations have evaluated subsequent events through October 6, 2017, which is the date the consolidated financial statements were available to be issued.

NOTE 2. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2017 and 2016, are summarized as follows:

	2017	2016
<i>UNCONDITIONAL PROMISES EXPECTED TO BE COLLECTED IN:</i>		
Less than one year	\$17,739,726	\$14,339,306
One year to five years	23,560,993	19,900,063
More than five years	5,726,185	6,023,010
	47,026,904	40,262,379
Less allowance for uncollectible amounts	(4,503,827)	(3,902,272)
Less discount to present value (5%)	(3,589,322)	(3,286,314)
	\$38,933,755	\$33,073,793

NOTE 3. INVESTMENTS

Net investment (loss) income for the years ended June 30, 2017 and 2016, is as follows:

	2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	\$298,133	\$1,021,997	\$ -	\$1,320,130
Net realized and unrealized gains	2,432,594	15,703,676	194,879	18,331,149
Less management fees	(113,143)	(408,555)	-	(521,698)
	2,617,584	16,317,118	194,879	19,129,581
Transfer to return corpus	6,010	(6,010)	-	-
Net investment income	\$2,623,594	\$16,311,108	\$194,879	\$19,129,581

	2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	\$491,955	\$2,042,633	\$ -	\$2,534,588
Net realized and unrealized losses	(772,993)	(4,364,756)	(170,211)	(5,307,960)
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)

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 were 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.

The Associations transferred \$6,010 to refund these unrestricted amounts during the year ended June 30, 2017. Deficiencies of this nature that are reported in unrestricted net assets were \$6,010 as of June 30, 2016. There were no deficiencies at June 30, 2017.

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)

Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets. 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 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 **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 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, 2017 and 2016, respectively:

2017

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Government bonds	\$1,329,279	\$1,329,279	\$ -	\$ -
Corporate bonds	448,138	448,138	-	-
Equity securities	72,814	10,164	-	62,650
Domestic equity funds	6,015,762	6,015,762	-	-
International equity funds	2,436,875	2,436,875	-	-
World equity funds	336,510	336,510	-	-
Emerging equity funds	845,151	845,151	-	-
Government bond funds (a)	27,066,409	27,066,409	-	-
Corporate bond funds	633,650	633,650	-	-
Corporate and Government bond funds	3,395,999	3,395,999	-	-
Multi-asset funds	120,315,909	120,315,909	-	-
Equity and fixed income funds	462,623	462,623	-	-
Other – commodities, convertibles and sector funds	140,392	140,392	-	-
	163,499,511	\$163,436,861	\$ -	\$62,650
Cash and cash equivalents (within investments)	3,183,945			
Charitable life insurance policies at cash surrender value	5,244,740			
Share certificates	16,439,429			
Private equity funds (b)	30,410,251			
Private realty and resources funds (b)	4,970,306			
Hedge funds (b)	16,495,893			
Total investments	\$240,244,076			
Interest in third-party trusts	\$2,997,250	\$ -	\$ -	\$2,997,250
Interest in charitable remainder unitrusts with third-party trustees	5,237,662	-	-	5,237,662
Total interests with third parties at fair value	\$8,234,912	\$ -	\$ -	\$8,234,912

NOTE 4. (CONTINUED)

2016

	<i>TOTAL</i>	<i>LEVEL 1</i>	<i>LEVEL 2</i>	<i>LEVEL 3</i>
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 (b)	26,937,173			
Private realty and resources funds (b)	5,573,480			
Hedge funds (b)	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

(a) In June 2017 the Associations' core portfolio commenced an asset allocation transition that was completed in August that shifted about \$110 million out of multi-asset mutual funds with about \$75 million going to a new multi-asset partnership, \$25 million to hedge funds and \$10 million to government bonds and government bond funds. While most of the transition occurred in the beginning of FY2018, as of June 30, 2017, approximately \$25 million had been shifted from the multi-asset mutual funds and was temporarily invested in government bond funds, awaiting redeployment to hedge funds.

(b) In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, 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.

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):

	<i>EQUITY SECURITIES</i>	<i>INTEREST IN THIRD-PARTY TRUSTS</i>	<i>INTEREST IN CHARITABLE REMAINDER UNITRUSTS WITH THIRD-PARTY TRUSTEES</i>	<i>TOTAL</i>
<i>Balance, June 30, 2015</i>	\$62,650	\$2,972,582	\$5,192,842	\$8,228,074
Unrealized losses	-	(170,211)	-	(170,211)
Sales and distributions	-	-	(227,862)	(227,862)
Change in value	-	-	(474,916)	(474,916)
<i>Balance, June 30, 2016</i>	62,650	2,802,371	4,490,064	7,355,085
Unrealized gains	-	194,879	-	194,879
Change in value	-	-	747,598	747,598
<i>Balance, June 30, 2017</i>	<u>\$62,650</u>	<u>\$2,997,250</u>	<u>\$5,237,662</u>	<u>\$8,297,562</u>
<i>Unrealized gains and change in value relating to assets still held as of June 30, 2017</i>	<u>\$ -</u>	<u>\$194,879</u>	<u>\$747,598</u>	<u>\$942,477</u>

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 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

NOTE 4. (CONTINUED)

to 2028. 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, 2017, the Associations had uncalled commitments of \$23,368,753, which represents 38% 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 \$2,112,399 as of June 30, 2017, representing 18% 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 \$306,550 and \$284,928 in 2017 and 2016, 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 \$106,859 and \$95,453 in 2017 and 2016, respectively.

During 2017 and 2016, the Associations received noncash donations of assets for use by the Naval Academy valued at \$3,194,500 and \$3,701,558, 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, 2017 and 2016, is summarized as follows:

	2017	2016
Land	\$753,197	\$753,197
Buildings and improvements	9,038,922	8,953,151
Furniture and equipment	1,352,764	1,123,716
Computer equipment and software	1,300,060	1,240,886
	12,444,943	12,070,950
Less accumulated depreciation and amortization	(6,508,380)	(5,999,695)
	\$5,936,563	\$6,071,255

Depreciation expense was \$508,685 and \$450,491 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, the Alumni Association held \$563,880 and \$566,985,

respectively, of midshipman 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, 2017 and 2016, \$587,337 and \$585,702, respectively, relating to the graduating classes of 2017 and 2016, were reclassified as unamortized life memberships deferred revenue. Payments from alumni who join the life membership

NOTE 7. (CONTINUED)

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

The Associations had a \$10,000,000 note from a bank under an unsecured, open-end revolving line of credit, which expired in March 2017 for use as an operating line of credit. Principal was due on demand and interest was based on the 30-day London Interbank Offering Rate (LIBOR) index rate plus 1.1% (2.15% and 1.57% at June 30, 2017 and 2016, respectively) and was payable monthly. On March 22, 2017, the Associations renewed this note for \$5,000,000 at the same interest rate with a new expiration date of March 21, 2018. No draws on this line of credit were made during the fiscal years

ended June 30, 2017, and 2016, respectively, and no balance is outstanding as of June 30, 2017 and 2016.

The Associations also had a \$10,000,000 note from a bank under an unsecured non-revolving line of credit which expired in January 2017 for short-term cash flow needs on specific restricted projects. Principal was due on demand. Interest was based on the 30-day LIBOR index rate plus 1.1% (1.57% at June 30, 2016). No draws on this note were made during the fiscal years ended June 30, 2017 and 2016. This vehicle expired in January 2017 and was not renewed.

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

Net assets of \$31,627,732 and \$31,985,041 for the years ended June 30, 2017 and 2016, 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, 2017, represent reclassifications of \$8,750

from unrestricted net assets and \$1,997,725 from permanently restricted net assets to temporarily restricted net assets. 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.

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, 2017 and 2016, the Alumni Association made contributions of \$262,290 and \$261,625, 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 each of the years ended June 30, 2017 and 2016, was \$243,000.

At June 30, 2017 and 2016, the Alumni Association's liability for these plans was \$1,387,683 and \$1,199,261, 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.

	2017	2016
Naval Academy Centers of Excellence:		
Academic	\$76,398,793	\$65,484,763
Admissions	8,608,351	8,903,605
Athletics	33,412,091	29,235,804
Character (ethics)	20,289,936	16,217,401
Leadership	16,040,503	10,411,678
Support to the Naval Academy not yet assigned to a center of excellence	21,785,232	16,282,259
<i>Purpose-restricted assets</i>	<i>176,534,906</i>	<i>146,535,510</i>
Time-restricted assets	7,575,589	5,631,074
<i>Total temporarily restricted net assets</i>	<i>\$184,110,495</i>	<i>\$152,166,584</i>

NOTE 12. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 and 2016, are invested to fund the following:

	2017	2016
Endowments supporting U.S. Naval Academy	\$51,667,685	\$53,076,895
Endowments supporting athletics and scholarship	6,521,566	6,076,687
Endowments supporting operations	3,345,388	2,846,244
Total permanently restricted net assets	\$61,534,639	\$61,999,826

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

NOTE 13. (CONTINUED)

- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Associations
- (7) The investment policies of the Associations

Return Objectives and Risk Parameters: The Associations' return objective is to preserve and enhance the purchasing power of the endowment investments over time, net of costs and withdrawals. This goal is synonymous with the pursuit of time-weighted net return on the investments that equals or exceeds inflation (as measured by the Consumer Price Index), plus spending from the investments. To satisfy this return objective, the Associations utilize a multi-asset class diversified portfolio that relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and

dividends). The Associations are prepared to incur risks consistent with the pursuit of the return objective. Risk will be measured based on both an absolute and a relative basis. Absolute metrics relate to declines in the inflation-adjusted market value of the portfolio. On a relative basis, the portfolio will be measured against portfolios of similar size and composition.

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 2017.

Changes in endowed net assets for the fiscal years ended June 30, 2017 and 2016, are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<i>Endowment net assets, June 30, 2015</i>	\$-	\$32,294,075	\$61,577,721	\$93,871,796
Interest, dividends and realized gains - 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
<i>Endowment net assets, June 30, 2016</i>	-	31,094,019	61,999,826	93,093,845
Interest, dividends and realized gains - net of investment expense	-	2,242,156	-	2,242,156
Net appreciation	-	5,213,724	194,879	5,408,603
Change in value	-	1,623	21,778	23,401
Contributions	-	375,000	1,315,881	1,690,881
Change in donor intent	-	1,483,791	(1,997,725)	(513,934)
<i>Endowment net assets, June 30, 2017</i>	\$-	\$40,410,313	\$61,534,639	\$101,944,952

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Trustees of
The United States Naval Academy Alumni Association, Inc.

To the Board of Directors of
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, 2017 and 2016, 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 6, 2017

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
<i>ASSETS</i>		
Cash and cash equivalents	\$2,200,123	\$1,171,004
Accounts receivable and other current assets	482,850	482,478
Contributions receivable, net	3,533,479	1,419,305
Investments	68,493,699	66,461,987
Property and equipment, net	3,127,984	3,173,608
Intercompany receivables	3,614,869	3,226,878
Total assets	\$81,453,004	\$75,935,260
<i>LIABILITIES AND NET ASSETS</i>		
<i>LIABILITIES</i>		
Accounts payable and accrued expenses	\$1,713,489	\$1,734,767
Deposits on life memberships	563,880	566,985
Class savings accounts	2,728,803	2,850,699
Deferred income and deposits	772,082	843,308
Split-interest agreements	795,227	788,588
Accrued key employees' retirement	1,387,683	1,199,261
Unamortized life memberships deferred revenue	16,348,283	16,022,719
Total liabilities	24,309,447	24,006,327
<i>NET ASSETS</i>		
Unrestricted	6,581,102	6,205,682
Temporarily restricted	27,145,623	23,075,342
Permanently restricted	23,416,832	22,647,909
Total net assets	57,143,557	51,928,933
Total liabilities and net assets	\$81,453,004	\$75,935,260

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<i>REVENUE, GAINS, AND OTHER SUPPORT</i>				
Contributions	\$1,298,292	\$3,209,589	\$761,033	\$5,268,914
Membership dues	152,959	-	-	152,959
Life member amortization	365,588	-	-	365,588
Merchandise sales	34,530	-	-	34,530
Net investment income	1,750,378	3,786,025	-	5,536,403
Publications and advertising	227,073	-	-	227,073
House activities	246,727	-	-	246,727
Intercompany support	2,020,128	-	-	2,020,128
Career transition services	713,167	-	-	713,167
Homecoming and conference fees	170,985	-	-	170,985
Royalties	545,900	-	-	545,900
Travel income	58,052	-	-	58,052
Other	7,363	-	-	7,363
<i>OTHER SUPPORT</i>				
Change in value of split-interest agreements	40,074	37,314	6,965	84,353
Changes in donors' intent	43,361	3,819	925	48,105
Net assets released from restrictions	2,966,466	(2,966,466)	-	-
<i>Total revenue, gains and other support</i>	<i>10,641,043</i>	<i>4,070,281</i>	<i>768,923</i>	<i>15,480,247</i>
<i>EXPENSES</i>				
Support to the Naval Academy	2,956,970	-	-	2,956,970
Audit and accounting	53,369	-	-	53,369
Awards and gifts	23,292	-	-	23,292
Bad debt expense	48,567	-	-	48,567
Conferences	236,470	-	-	236,470
Cost of goods	19,057	-	-	19,057
Cultivation	17,814	-	-	17,814
Depreciation	248,238	-	-	248,238
Equipment rental	405,852	-	-	405,852
Insurance	102,070	-	-	102,070
Legal fees	32,646	-	-	32,646
Licenses	55,142	-	-	55,142
Membership dues	6,905	-	-	6,905
Miscellaneous	52,297	-	-	52,297
Occupancy	238,433	-	-	238,433
Postage and shipping	176,065	-	-	176,065
Printing and publications	437,668	-	-	437,668
Professional and contract services	1,810,182	-	-	1,810,182
Salaries and benefits	3,532,852	-	-	3,532,852
Shared information management	(535,764)	-	-	(535,764)
Supplies	91,514	-	-	91,514
Telephone	40,243	-	-	40,243
Training	52,438	-	-	52,438
Travel and transportation	163,303	-	-	163,303
<i>Total expenses</i>	<i>10,265,623</i>	<i>-</i>	<i>-</i>	<i>10,265,623</i>
<i>Change in net assets</i>	<i>375,420</i>	<i>4,070,281</i>	<i>768,923</i>	<i>5,214,624</i>
<i>Net assets at beginning of year</i>	<i>6,205,682</i>	<i>23,075,342</i>	<i>22,647,909</i>	<i>51,928,933</i>
<i>Net assets end of year</i>	<i>\$6,581,102</i>	<i>\$27,145,623</i>	<i>\$23,416,832</i>	<i>\$57,143,557</i>

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
<i>ASSETS</i>		
Cash and cash equivalents	\$3,675,714	\$2,168,052
Accounts receivable and other current assets	165,365	174,744
Contributions receivable, net	35,400,276	31,654,488
Investments	171,750,376	147,887,546
Property and equipment, net	2,808,579	2,897,647
Interest in third-party trusts	2,997,250	2,802,371
<i>Total assets</i>	<i>\$216,797,560</i>	<i>\$187,584,848</i>
<i>LIABILITIES AND NET ASSETS</i>		
<i>LIABILITIES</i>		
Accounts payable and accrued expenses	\$273,212	\$289,086
Deferred income	-	764,516
Split-interest agreements	5,770,068	5,010,571
Intercompany payables	3,614,869	3,226,878
<i>Total liabilities</i>	<i>9,658,149</i>	<i>9,291,051</i>
<i>NET ASSETS</i>		
Unrestricted	16,566,749	14,432,014
Temporarily restricted	152,454,855	124,509,866
Permanently restricted	38,117,807	39,351,917
<i>Total net assets</i>	<i>207,139,411</i>	<i>178,293,797</i>
<i>Total liabilities and net assets</i>	<i>\$216,797,560</i>	<i>\$187,584,848</i>

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<i>REVENUE, GAINS, AND OTHER SUPPORT</i>				
Contributions	\$9,778,552	\$40,316,318	\$554,848	\$50,649,718
Fund administrative fee	2,536,179	-	-	2,536,179
Net investment income	900,644	12,497,655	194,879	13,593,178
Intercompany support	(2,020,128)	-	-	(2,020,128)
Other	64,630	(6,007)	-	58,623
<i>OTHER SUPPORT</i>				
Change in value of split-interest agreements	139,984	1,069,795	14,814	1,224,593
Changes in donors' intent	10,888	1,939,658	(1,998,651)	(48,105)
Net assets released from restrictions	27,872,430	(27,872,430)	-	-
<i>Total revenue, gains and other support</i>	<i>39,283,179</i>	<i>27,944,989</i>	<i>(1,234,110)</i>	<i>65,994,058</i>
<i>EXPENSES</i>				
Support to the Naval Academy	28,270,528	-	-	28,270,528
Audit and accounting	65,149	-	-	65,149
Awards and gifts	6,866	-	-	6,866
Bad debt expense	1,114,972	-	-	1,114,972
Conferences	91,574	-	-	91,574
Consulting – advantage	381,933	-	-	381,933
Depreciation	260,447	-	-	260,447
Donor cultivation	250,349	-	-	250,349
Equipment rental	36,737	-	-	36,737
Insurance	44,146	-	-	44,146
Legal fees	48,379	-	-	48,379
Membership dues	9,562	-	-	9,562
Miscellaneous	67,526	-	-	67,526
Occupancy	109,587	-	-	109,587
Postage and shipping	60,738	-	-	60,738
Printing and publications	67,728	-	-	67,728
Professional and contract services	399,856	-	-	399,856
Salaries and benefits	5,067,286	-	-	5,067,286
Shared information management	535,764	-	-	535,764
Supplies	46,432	-	-	46,432
Training	29,396	-	-	29,396
Travel and transportation	183,489	-	-	183,489
<i>Total expenses</i>	<i>37,148,444</i>	<i>-</i>	<i>-</i>	<i>37,148,444</i>
<i>Change in net assets</i>	<i>2,134,735</i>	<i>27,944,989</i>	<i>(1,234,110)</i>	<i>28,845,614</i>
<i>Net assets at beginning of year</i>	<i>14,432,014</i>	<i>124,509,866</i>	<i>39,351,917</i>	<i>178,293,797</i>
<i>Net assets end of year</i>	<i>\$16,566,749</i>	<i>\$152,454,855</i>	<i>\$38,117,807</i>	<i>\$207,139,411</i>

The United States Naval Academy Alumni Association, Inc.

As of June 30, 2017

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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, 2017

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†Mr. Nolan passed away in November 2017, after the period reflected in this report.

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

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