

**Financial Statements
and Supplemental Information**

Naval War College Foundation, Inc.

December 31, 2010 and 2009



Mayer Hoffmann McCann P.C.
An Independent CPA Firm
Tofias New England Division

NAVAL WAR COLLEGE FOUNDATION, INC.

*Financial Statements
and Supplemental Information*

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

Tofias New England Division

130 Bellevue Avenue

Newport, RI 02840

Tel: 401.380.1806 Fax: 401.380.1801

www.mhm-pc.com

Independent Auditors' Report

The Board of Trustees
Naval War College Foundation, Inc.
Newport, Rhode Island

We have audited the accompanying statements of financial position of the Naval War College Foundation, Inc. (a non-profit organization) as of December 31, 2010 and 2009, and the related statements of changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Naval War College Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Naval War College Foundation, Inc. as of December 31, 2010 and 2009 and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

May 23, 2011
Newport, Rhode Island

NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Financial Position

December 31,
2010 2009

Assets

Cash and cash equivalents	\$ 2,200,036	\$ 1,425,747
Interest receivable	35,944	33,793
Contributions and grants receivable, net	292,523	269,560
Life memberships receivable, net	32,581	23,801
Investments	16,553,017	15,009,929
Inventory	142,434	173,043
Prepaid expenses	9,694	478
Furniture and equipment, net	59,734	74,750
Historical collections	67,598	67,598
	<hr/>	<hr/>
Total assets	\$ 19,393,561	\$ 17,078,699

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 108,618	\$ 101,599
Capital lease obligation	498	6,052
Gift annuities	183,745	76,733
	<hr/>	<hr/>
Total liabilities	292,861	184,384

Net assets:

Unrestricted	6,988,859	5,816,756
Temporarily restricted	3,282,564	3,137,488
Permanently restricted	8,829,277	7,940,071
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Total net assets	19,100,700	16,894,315

Total liabilities and net assets	\$ 19,393,561	\$ 17,078,699
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NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Changes in Net Assets

	<i>Years Ended December 31,</i>	
	<i>2010</i>	<i>2009</i>
Changes in unrestricted net assets:		
Support:		
Corporate members	\$ 232,500	\$ 190,200
Individual members	250,499	186,150
Graduate members	88,325	111,960
Unrestricted contributions	<u>760,897</u>	<u>496,530</u>
Total support	<u>1,332,221</u>	<u>984,840</u>
Revenues:		
Museum store sales, net	63,589	72,624
Investment income, net	884,351	788,018
Special events, gross	28,399	55,927
Publication royalties	<u>309</u>	<u>685</u>
Total revenues	<u>976,648</u>	<u>917,254</u>
Net assets released from restrictions and transferred:		
Net assets released from restrictions	852,770	487,210
Reclassification from temporarily restricted for prior years' endowment losses charged to unrestricted	5,693	1,507,233
Net reclassifications at donors' requests	<u>(1,000)</u>	<u>(1,000)</u>
Total net assets released from restrictions and transferred	<u>857,463</u>	<u>1,993,443</u>
Total unrestricted support and revenues	<u>3,166,332</u>	<u>3,895,537</u>
Expenses:		
Foundation grants	1,060,111	693,903
Program services	475,260	383,874
Management and resource development	<u>458,858</u>	<u>443,673</u>
Total expenses	<u>1,994,229</u>	<u>1,521,450</u>
Change in unrestricted net assets	<u>1,172,103</u>	<u>2,374,087</u>

See accompanying notes to the financial statements.

NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Changes in Net Assets (Continued)

	<i>Years Ended December 31,</i>	
	<i>2010</i>	<i>2009</i>
Change in temporarily restricted net assets:		
Contributions	\$ 172,532	\$ 225,214
Gifts in kind	59,763	9,007
Investment income	770,244	1,353,995
Reclassification to unrestricted for prior years' endowment losses charged to unrestricted	(5,693)	(1,507,233)
Net assets released from restrictions	(852,770)	(487,210)
Reclassification of accumulated earnings due to change in law	-	1,208,773
Net reclassifications at donors' requests	<u>1,000</u>	<u>1,000</u>
Change in temporarily restricted net assets	<u>145,076</u>	<u>803,546</u>
Change in permanently restricted net assets:		
Contributions	837,729	110,403
Gifts in kind	51,477	-
Reclassification of accumulated earnings due to change in law	<u>-</u>	<u>(1,208,773)</u>
Change in permanently restricted net assets	<u>889,206</u>	<u>(1,098,370)</u>
Change in net assets	2,206,385	2,079,263
Net assets, beginning	<u>16,894,315</u>	<u>14,815,052</u>
Net assets, ending	<u>\$ 19,100,700</u>	<u>\$ 16,894,315</u>

See accompanying notes to the financial statements.

NAVAL WAR COLLEGE FOUNDATION, INC.

Statements of Cash Flows

	<i>Years Ended December 31,</i>	
	<i>2010</i>	<i>2009</i>
Cash flows from operating activities:		
Changes in net assets	\$ 2,206,385	\$ 2,079,263
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	25,339	19,093
Bad debt expense	3,564	2,034
Net realized and unrealized gains on investments	(1,133,554)	(1,706,057)
Investments received as contributions	(310,734)	(106,915)
Net amortization of discount on pledges receivable	945	18,506
Contributions restricted for long-term investment	(889,206)	(110,403)
Changes in:		
Interest receivable	(2,151)	110
Contributions and grants receivable	(23,908)	271,983
Life memberships receivable	(12,344)	8,477
Inventory	30,609	(5,556)
Prepaid expenses	(9,216)	397
Accounts payable and accrued expenses	7,019	(44,203)
Gift annuities	107,012	26,784
Total adjustments	(2,206,625)	(1,625,750)
Net cash provided by (used in) operating activities	(240)	453,513
Cash flows from investing activities:		
Acquisition of furniture and equipment	(10,323)	(61,024)
Purchase of investments	(4,507,928)	(4,603,930)
Proceeds from the sale/maturities of investments	4,409,128	2,393,966
Net cash used in investing activities	(109,123)	(2,270,988)
Cash flows from financing activities:		
Contributions and reclassification of investment income restricted for long-term investment	889,206	152,103
Payments on capital lease obligation	(5,554)	(4,847)
Net cash provided by financing activities	883,652	147,256
Increase (decrease) in cash and cash equivalents	774,289	(1,670,219)
Cash and cash equivalents, beginning of year	1,425,747	3,095,966
Cash and cash equivalents, end of year	\$ 2,200,036	\$ 1,425,747

See accompanying notes to the financial statements.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

The Naval War College Foundation, Inc. (the "Foundation"), organized in 1969, is a charitable organization whose purpose is to provide a source of support to assist the Naval War College in carrying out its mission to enhance the professional capabilities of its students and conduct research in the development of advanced strategic and tactical concepts. The Internal Revenue Service has determined that the Foundation is a non-profit organization exempt from income taxes under Sections 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

The Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments in marketable debt and equity securities are valued at their fair values, based on quoted market prices. Unrealized gains and losses are included in the statements of changes in net assets.

Classification of Net Assets

Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets at December 31, 2010 and 2009 are \$27,955 and \$25,431, respectively of assets directed by the Board of Trustees to be segregated from the general operating assets and to be known as the Strasser International Leadership Award.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations or state law that will be met by the passage of time or fulfillment of donor stipulated purposes.

Permanently Restricted Net Assets

Net assets subject to permanent donor-imposed stipulations are maintained in perpetuity by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for specific purposes.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Contributions and Recognition of Donor Restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is given. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets. The Foundation carries its contributions and grants receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Foundation evaluates its contributions and grants receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions.

Membership Support

Since members receive only nominal tangible benefits from their membership payments, these dues are contributions in substance. As such, they fall under the treatment of contributions as described in the note on contributions and recognition of donor restrictions.

The Foundation carries its membership receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Foundation evaluates its membership receivables and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions.

Inventory

Inventory consists of museum store merchandise held for resale. The inventory is valued at the lower of cost or market determined on first-in, first-out basis.

Furniture and Equipment

Furniture and equipment is stated at cost and depreciated using the straight-line method over estimated useful lives ranging from three to five years. It is the policy of the Foundation to capitalize those items with a fair value at date of donation or cost exceeding \$1,000.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Occupancy Expense

The Department of the Navy, consistent with its internal regulations, does not charge the Foundation for rent or utilities. The rental value of the offices has not been determined and, accordingly, is not included in the Foundation's operating results.

Concentration of Credit Risk

The Foundation maintains its cash and securities in bank and investment deposit accounts which, at times, may exceed insured limits. The Foundation has not experienced any losses in such accounts.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Historical Collections

In accordance with accounting standards for contributions received and contributions made, the Foundation does not recognize contributions of works of art or historical treasures, which meet the following conditions. They are: (1) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (2) protected, kept unencumbered, cared for, and preserved, and (3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collection.

Allocation of Expenses

The cost of providing program and other services has been summarized on a functional basis in the statements of changes in net assets. Accordingly, management has allocated certain costs among the program and supporting services benefited. Personnel and other costs have been allocated based upon actual time spent or usage.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

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

Fair Value Measurements

The Foundation measures its financial instruments at fair value. Fair value standards require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to determine value. Fair value standards also require the Foundation to classify its financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique as follows:

Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments included in Level 1 includes listed equity and debt securities publicly traded on a stock exchange.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments, which are generally included in this category, include less liquid and restricted equity securities and over-the-counter derivatives including corporate bonds and loans and public company equity securities with legal restrictions.

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include investments in privately-held companies, limited partnership interests in corporate private equity funds, and funds of hedge funds.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Subsequent Events

The Foundation has evaluated subsequent events through May 23, 2011, the date the Audit Committee of the Board of Trustees approved and authorized the financial statements to be issued.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 2 – Contributions and Grants Receivable, Net

The Foundation recognizes promise-to-give contributions and grants in the year in which such promises are made. Promise-to-give contributions are recorded at net realizable value less an allowance for doubtful accounts.

At December 31, contributions and grants receivable consist of:

	2010			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Gross contributions and grants:				
Due within one year	\$ 141,737	\$ 83,453	\$ -	\$ 225,190
Due within two to four years	<u>47,245</u>	<u>30,000</u>	<u>-</u>	<u>77,245</u>
Total	188,982	113,453	-	302,435
Allowance for pledges receivable	(1,600)	-	-	(1,600)
Discount to present value	<u>(867)</u>	<u>(7,445)</u>	<u>-</u>	<u>(8,312)</u>
Contributions and grants receivables, net	<u>\$ 186,515</u>	<u>\$ 106,008</u>	<u>\$ -</u>	<u>\$ 292,523</u>

	2009			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Gross contributions and grants:				
Due within one year	\$ 137,335	\$ 32,687	\$ -	\$ 170,022
Due within two to four years	<u>98,504</u>	<u>10,000</u>	<u>-</u>	<u>108,504</u>
Total	235,839	42,687	-	278,526
Allowance for pledges receivable	(1,600)	-	-	(1,600)
Discount to present value	<u>(6,890)</u>	<u>(476)</u>	<u>-</u>	<u>(7,366)</u>
Contributions and grants receivables, net	<u>\$ 227,349</u>	<u>\$ 42,211</u>	<u>\$ -</u>	<u>\$ 269,560</u>

Approximately 64% of gross contributions and grants receivable are collectible from three donors as of December 31, 2010. Approximately 89% of gross contributions and grants receivable were collectible from three donors as of December 31, 2009.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 3 – Life Memberships Receivable, Net

Life memberships receivable consists of the unpaid balances of individual life membership dues, net of an allowance for uncollectible amounts.

These unpaid memberships are expected to be received as follows:

Year ending December 31,	2010	2009
2010	\$ -	\$ 18,976
2011	24,327	6,825
2012	11,254	-
Total	35,581	25,801
Less allowance	<u>(3,000)</u>	<u>(2,000)</u>
Life memberships receivable, net	\$ <u>32,581</u>	\$ <u>23,801</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 4 – Investments

Investments are carried at fair values and are summarized as follows as of December 31:

	2010	2009
Common stocks:		
Consumer staples	\$ 1,713,220	\$ 1,468,680
Energy	807,140	409,140
Financials	157,987	-
Healthcare	2,640,283	2,297,536
Industrials	2,539,150	2,624,215
Information technology	196,431	-
Materials	1,787,600	1,357,030
Telecommunication services	1,159,328	958,160
Utilities	1,789,600	2,253,500
Total common stocks	<u>12,790,739</u>	<u>11,368,261</u>
Preferred stocks:		
Financials	125,550	121,150
Total preferred stocks	<u>125,550</u>	<u>121,150</u>
Bonds:		
U.S. government agencies	102,719	573,189
Corporates	2,307,674	1,874,115
U.S. treasuries	533,641	640,296
Total bonds	<u>2,944,034</u>	<u>3,087,600</u>
Mutual funds:		
Bond funds	692,694	432,918
Total mutual funds	<u>692,694</u>	<u>432,918</u>
Investments	<u>\$ 16,553,017</u>	<u>\$ 15,009,929</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 4 – Investments (Continued)

The following schedule summarizes the net investment income for the year ended December 31, 2010:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Interest and dividends	\$ 343,258	\$ 290,864	\$ -	\$ 634,122
Net realized gains	130,088	109,530	-	239,618
Net unrealized gains	485,318	408,618	-	893,936
Management fees	<u>(74,313)</u>	<u>(38,768)</u>	<u>-</u>	<u>(113,081)</u>
Total	<u>\$ 884,351</u>	<u>\$ 770,244</u>	<u>\$ -</u>	<u>\$ 1,654,595</u>

The following schedule summarizes the net investment income for the year ended December 31, 2009:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Interest and dividends	\$ 200,718	\$ 335,550	\$ -	\$ 536,268
Net realized gains	45,130	74,920	-	120,050
Net unrealized gains	595,530	990,477	-	1,586,007
Management fees	<u>(53,360)</u>	<u>(46,952)</u>	<u>-</u>	<u>(100,312)</u>
Total	<u>\$ 788,018</u>	<u>\$ 1,353,995</u>	<u>\$ -</u>	<u>\$ 2,142,013</u>

Note 5 – Fair Values of Financial Instruments

The Foundation follows the fair value measurement standards for its financial instruments, these standards require enhanced disclosures about instruments that are measured and reported at fair value and establish a hierarchical disclosure framework, which prioritizes and ranks the level of market price used in measuring instruments at fair value. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 5 – Fair Values of Financial Instruments (Continued)

The valuation of the Foundation's financial instruments using the fair value hierarchy consisted of the following at December 31:

	<i>Quoted prices in active markets Level 1</i>	<i>Significant observable inputs Level 2</i>	<i>Significant unobservable inputs Level 3</i>	<i>Total</i>
2010				
Common stocks	\$ 12,790,739	\$ -	\$ -	\$ 12,790,739
Preferred stocks	125,550	-	-	125,550
Bonds	-	2,944,034	-	2,944,034
Mutual funds	692,694	-	-	692,694
	<u>\$ 13,608,983</u>	<u>\$ 2,944,034</u>	<u>\$ -</u>	<u>\$ 16,553,017</u>
2009				
Common stocks	\$ 11,368,261	\$ -	\$ -	\$ 11,368,261
Preferred stocks	121,150	-	-	121,150
Bonds	-	3,087,600	-	3,087,600
Mutual funds	432,918	-	-	432,918
	<u>\$ 11,922,329</u>	<u>\$ 3,087,600</u>	<u>\$ -</u>	<u>\$ 15,009,929</u>

Management has assessed that fair value approximates carrying value for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses given the short-term nature of these instruments. Management has no practical or cost effective way of determining fair value for contributions receivable.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 6 – Furniture and Equipment, Net

Furniture and equipment, net, consists of the following:

	<i>2010</i>	<i>2009</i>
Furniture and equipment	\$ 117,005	\$ 106,683
Less accumulated depreciation	<u>(57,271)</u>	<u>(31,933)</u>
Furniture and equipment, net	<u>\$ 59,734</u>	<u>\$ 74,750</u>

Note 7 – Capital Leases

In December 2007, the Foundation entered into a capital lease for office equipment for which the equipment was not received until January 2008. The lease expires in January 2011. The capital lease is payable in monthly installments of \$504, including interest, beginning in February 2008. The interest rate on the lease is 13.7%.

The following is a schedule of future minimum payments required under the lease with the present value as follows:

2011	\$	<u>504</u>
Total minimum lease payments		504
Less: amount representing interest		<u>(6)</u>
Present value of minimum lease payments	\$	<u>498</u>

Note 8 – Historical Collections

The Foundation has a collection, which consists of paintings, sculptures, charts, memoirs, letters and other rare books and memorabilia of historical significance to the Navy and the Naval War College. This collection is currently loaned to the Naval War College for display in the Naval War College Museum and in the various Naval War College buildings. Post 1991 collection items donated to the Foundation are not capitalized as no estimation of fair value is readily determinable.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 9 – Gift Annuities

The Foundation was named administrator of a charitable remainder annuity trust during the year ended December 31, 2004. The charitable remainder annuity trust provides for the payment of quarterly distributions to the designated beneficiary over the life of the beneficiary. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recorded in the statements of changes in net assets as an unrestricted contribution in the period the trust was established. Assets held in the charitable remainder annuity trust totaled \$50,000 when the trust was created in 2004 and are reported at fair market value as part of the investments balance in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments, \$2,119 at December 31, 2010, is calculated using a discount rate of 8.3% and applicable mortality tables.

The Foundation was named administrator of a charitable remainder annuity trust during the year ended December 31, 2006. The charitable remainder annuity trust provides for the payment of quarterly distributions to the designated beneficiary over the life of the beneficiary. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statements of changes in net assets as an unrestricted contribution in the period the trust is established. Assets held in the charitable remainder annuity trust totaled \$66,111 when the trust was created in 2006 and are reported at fair market value as part of the investments balance in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments, \$2,364 at December 31, 2010, is calculated using a discount rate of 9.5% and applicable mortality tables.

The Foundation was named administrator of a charitable remainder annuity trust during the year ended December 31, 2007. The charitable remainder annuity trust provides for the payment of semi-annual distributions to the designated beneficiary over the life of the beneficiary. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statements of changes in net assets as an unrestricted contribution in the period the trust is established. Such contributions totaled \$20,064 for the year ended December 31, 2007. Assets held in the charitable remainder annuity trust totaled \$48,055 when the trust was created in 2007 and are reported at fair market value as part of the investments balance in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments, \$18,838 at December 31, 2010, is calculated using a discount rate of 6.0% and applicable mortality tables.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 9 – Gift Annuities (Continued)

The Foundation was named administrator of a charitable remainder unitrust during the year ended December 31, 2009. The charitable remainder unitrust provides for the payment of quarterly distributions to the designated beneficiary over the life of the beneficiary. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recorded in the statements of changes in net assets as a permanently restricted contribution in the period the trust was established. Such contributions totaled \$84,902 for the year ended December 31, 2009. Assets held in the charitable remainder unitrust totaled \$125,000 when the trust was created in 2009 and are reported at fair market value as part of the investments balance in the Foundation's statements of financial position. During 2010, the Foundation received an additional contribution made to the charitable remainder unitrust created during 2009. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statements of changes in net assets as a permanently restricted contribution in the period the trust is established or additional gifts are received. Such contributions totaled \$84,769 for the year ended December 31, 2010. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments, \$71,902 at December 31, 2010, is calculated using an average discount rate of 4.2% and applicable mortality tables.

The Foundation was named administrator of a charitable remainder unitrust during the year ended December 31, 2010. The charitable remainder unitrust provides for the payment of quarterly distributions to the designated beneficiary over the life of the beneficiary. At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statements of changes in net assets as a permanently restricted contribution in the period the trust is established. Such contributions totaled \$51,477 for the year ended December 31, 2010. Assets held in the charitable remainder unitrust totaled \$140,000 when the trust was created in 2010 and are reported at fair market value as part of the investments balance in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability based on actuarial assumptions. The present value of the estimated future payments, \$88,523 at December 31, 2010, is calculated using a discount rate of 2.0% and applicable mortality tables.

Note 10 – Museum Store Sales, Net

The Foundation operates a store in the Naval War College Museum, which sells souvenirs and memorabilia. Sales and cost of goods sold were as follows:

	<i>2010</i>	<i>2009</i>
Sales	\$ 160,791	\$ 161,308
Cost of goods sold	<u>97,202</u>	<u>88,684</u>
Net sales	<u>\$ 63,589</u>	<u>\$ 72,624</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 10 – Museum Store Sales, Net (Continued)

Additionally, the museum store incurs other operating costs consisting primarily of personnel costs and bank charges. These operating costs amounted to \$66,980 and \$62,254 for the years ended December 31, 2010 and 2009, respectively, and are included in program services on the statements of changes in net assets.

Note 11 – Net Assets

The following represents required disclosures relative to the composition of investments and net assets at December 31, 2010 and 2009:

2010	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 25,431	\$ 2,200,961	\$ 7,940,071	\$ 10,166,463
Gifts and additions	-	-	889,206	889,206
Long-term investment returns, net:				
Interest and dividends	951	290,864	-	291,815
Realized gains	359	109,530	-	109,889
Unrealized gains	1,341	408,618	-	409,959
Management fees	(127)	(38,767)	-	(38,894)
Total long-term investment returns, net	<u>2,524</u>	<u>770,245</u>	<u>-</u>	<u>772,769</u>
Expenditures:				
Amounts appropriated for expenditure	-	(380,506)	-	(380,506)
Change in endowment assets and those functioning as endowment assets	<u>2,524</u>	<u>389,739</u>	<u>889,206</u>	<u>1,281,469</u>
Endowment assets and those functioning as endowment assets, end of year	<u>\$ 27,955</u>	<u>\$ 2,590,700</u>	<u>\$ 8,829,277</u>	<u>\$ 11,447,932</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 11 – Net Assets (Continued)

2009	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment assets and those functioning as endowment assets, beginning of year	\$ 21,530	\$ -	\$ 8,996,741	\$ 9,018,271
Reclassification based on change in law	-	1,208,773	(1,208,773)	-
Gifts and additions	-	-	152,103	152,103
Long-term investment returns, net:				
Interest and dividends	965	335,550	-	336,515
Realized gains	216	74,920	-	75,136
Unrealized losses	2,855	990,477	-	993,332
Management fees	(135)	(46,952)	-	(47,087)
Total long-term investment returns, net	3,901	1,353,995	-	1,357,896
Expenditures:				
Amounts appropriated for expenditure	-	(361,807)	-	(361,807)
Change in endowment assets and those functioning as endowment assets	3,901	2,200,961	(1,056,670)	1,148,192
Endowment assets and those functioning as endowment assets, end of year	\$ 25,431	\$ 2,200,961	\$ 7,940,071	\$ 10,166,463

Endowment

The Foundation's endowment consists of approximately 36 individual funds established for a variety of purposes by donors. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 11 – Net Assets (Continued)

Interpretation of Relevant Law

The State of Rhode Island has signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective for the year ended December 31, 2009 and thereafter, requiring the preservation of the original value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation is applying this law as passed. As a result of this law, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original gift 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. UPMIFA allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the Foundation's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions.

Investment Objectives and Spending Policy

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for the annual operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indexes while assuming a moderate level of investment risk. Actual returns in any given year may vary. To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Distributions from long-term investments are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. The Board of Trustees has established a spending rate of five percent (5%) of a rolling twelve-quarter average fair market value of the long-term investments. Distributions up to this spending rate are used to support operations. The Foundation has adopted this spending policy in order to protect the nature of the original corpus of gifts as well as to preserve the purchasing power of these funds into the future.

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. At December 31, 2010 and 2009, unrestricted net assets had a claim against future endowment earnings of approximately \$33,000 and \$39,000, respectively, with respect to prior deficiencies.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 12 – Related Parties

Contributions received from members of the Board of Trustees and employees totaled \$982,130 and \$355,167 for the years ended December 31, 2010 and 2009, respectively. Contributions and grants receivable include amounts due from Board members and employees totaling \$127,945 and \$208,104 at December 31, 2010 and 2009, respectively.

Note 13 – Fundraising Costs

Management and resource development on the statements of changes in net assets includes approximately \$72,000 and \$94,000 of fundraising costs for the years ended December 31, 2010 and 2009, respectively. These amounts represent printing, mailing and promotion costs as well as an allocation of employees' costs for salary, taxes, and benefits based on time spent on fundraising activities.

Note 14 – Pension Plan

The Foundation has a tax sheltered retirement plan (the "Plan") covering all employees who meet certain eligibility requirements. Employees may elect to defer a percentage of their compensation into the Plan. The Foundation contributes 1% of an employee's compensation. Additionally, matching contributions are made by the Foundation equal to 100% of the first 4% deferred by an employee, and for employee deferrals in excess of 4%, at the rate of one half percent per year of employment, limited to a maximum matching contribution of 9% of an employee's compensation. Contributions made by the Foundation were \$28,536 and \$25,361 for the years ended December 31, 2010 and 2009, respectively.

Note 15 – Operating Leases

The Foundation leases office equipment under a non-cancelable operating lease. Future minimum lease payments required under the non-cancelable operating lease is as follows:

2011	\$	3,219
2012		3,219
2013		<u>2,682</u>
Total	\$	<u>9,120</u>

The Foundation also leases office equipment under various cancelable operating leases.

Lease expense was approximately \$8,000 for each of the years ended December 31, 2010 and 2009.

NAVAL WAR COLLEGE FOUNDATION, INC.

Notes to Financial Statements

Note 16 – Uncertain Tax Positions

The Foundation accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Foundation has identified its tax status as a tax exempt entity as a tax position; however, the Foundation has determined that such tax position does not result in an uncertainty requiring recognition. The Foundation is not currently under examination by any taxing jurisdiction. Its Federal tax returns are generally open for examination for the past three years.

Supplemental Information



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division
130 Bellevue Avenue
Newport, RI 02840
Tel: 401.380.1806 Fax: 401.380.1801
www.mhm-pc.com

Independent Auditors' Report on Supplemental Information

The Board of Trustees
Naval War College Foundation, Inc.
Newport, Rhode Island

Our report on our audits of the basic financial statements of the Naval War College Foundation, Inc. for the years ended December 31, 2010 and 2009 appears on page one. The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying selected information, supplemental schedules and charts are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

May 23, 2011
Newport, Rhode Island

NAVAL WAR COLLEGE FOUNDATION, INC.

Selected Financial Information

Composition of Assets

	<i>December 31,</i>			
	<i>2010</i>	<i>of %</i>	<i>2009</i>	<i>of %</i>
	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>	<i>Assets</i>
Cash	\$ 2,200,036		\$ 1,425,747	
Investments	<u>16,553,017</u>		<u>15,009,929</u>	
Total cash and investments	18,753,053	97%	16,435,676	96%
Other assets	<u>640,508</u>	<u>3%</u>	<u>643,023</u>	<u>4%</u>
Total assets	\$ <u>19,393,561</u>	<u>100%</u>	\$ <u>17,078,699</u>	<u>100%</u>
Total assets, end of year	\$ 19,393,561		\$ 17,078,699	
Total assets, beginning of year	<u>17,078,699</u>		<u>15,021,705</u>	
Increase in assets	<u>\$ 2,314,862</u>		<u>\$ 2,056,994</u>	
% increase		<u>14%</u>		<u>14%</u>

Museum Store Operations

	<i>Years Ended December 31,</i>			
	<i>2010</i>	<i>% of</i>	<i>2009</i>	<i>% of</i>
	<i>Amount</i>	<i>Sales</i>	<i>Amount</i>	<i>Sales</i>
Gross sales	\$ 160,791	100%	\$ 161,308	100%
Cost of goods sold	<u>97,202</u>	<u>60%</u>	<u>88,684</u>	<u>55%</u>
Gross profit	<u>63,589</u>	<u>40%</u>	<u>72,624</u>	<u>45%</u>
Personnel costs	55,330	34%	54,860	34%
Other store expenses	<u>11,650</u>	<u>7%</u>	<u>7,394</u>	<u>5%</u>
Total operating costs	<u>66,980</u>	<u>41%</u>	<u>62,254</u>	<u>39%</u>
Net income (loss) from museum store	\$ <u>(3,391)</u>	<u>-1%</u>	\$ <u>10,370</u>	<u>6%</u>

NAVAL WAR COLLEGE FOUNDATION, INC.

Schedule of Permanently Restricted Net Assets

Year Ended December 31, 2010

	<i>Beginning Balance</i>	<i>Contributions</i>	<i>Ending Balance</i>
Adelaar Book Fund	\$ 17,700	\$ 200	\$ 17,900
Annenberg Regional Endowment	250,000	-	250,000
Asia Pacific Study Group	100,000	-	100,000
Batemans NCC Essay Award	21,604	-	21,604
Brecker Library Support Fund	20,000	-	20,000
Carr Lecture Fund	41,371	-	41,371
Daley Family Award	45,599	200	45,799
D'Luhy Prize	25,000	-	25,000
EMC Information Technology Chair	1,500,000	-	1,500,000
Evening Lecture Endowment	50,000	-	50,000
Fairchild International Lecture Fund	65,000	-	65,000
Foster Endowment	84,903	84,769	169,672
Freund International Student Fund	50,000	-	50,000
Hayward CDE Award	19,509	-	19,509
John Nicholas Brown Chair & Study Group	1,431,443	1,000	1,432,443
Kurth Fund	125,000	-	125,000
Larkin USMC Award	28,500	1,560	30,060
Levy Chair	1,212,569	-	1,212,569
Lowry Visiting Professorship	31,773	-	31,773
McGinnis Family Award	21,781	-	21,781
Military Operations/International Law Award	10,000	-	10,000
Miller Lecture Fund	109,775	-	109,775
Naval Order Book Fund	10,025	-	10,025
Naval War College Foundation Award	24,847	-	24,847
Nolan Award Fund	25,000	-	25,000
Polk Holiday Lunch Fund	2,200	-	2,200
Polk Sailors of the Year Award	30,648	-	30,648
Reinauer Award	20,777	-	20,777
Ribbey CRUT	-	51,477	51,477
Ruger National Security Economics Chair	2,399,389	-	2,399,389
Strasser Counter-Terrorism Lecture Fund	100,100	-	100,100
Strasser International Leadership Awards Fund	11,216	-	11,216
Thys Fund	25,000	-	25,000
van Beuren Chair for Asia Pacific Studies	-	750,000	750,000
Wheeler NCC Fund	9,342	-	9,342
Woodson Memorial Award	20,000	-	20,000
Total	\$ 7,940,071	\$ 889,206	\$ 8,829,277

See Independent Auditors' Report on Supplemental Information.

NAVAL WAR COLLEGE FOUNDATION, INC.

Schedule of Temporarily Restricted Net Assets

Year Ended December 31, 2010

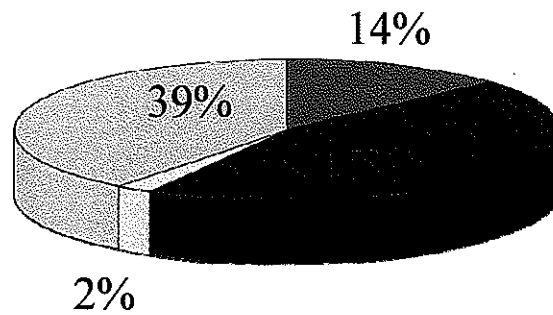
	Beginning Balance	Contributions	Net Investment Income	Released from Restriction	Transfer to Unrestricted Restricted Net Assets	Reclassification at Donor's Request	Ending Balance
Adelaar Book Fund	\$ 2,445	\$ -	\$ 1,683	\$ (300)	\$ -	\$ -	\$ 3,828
Africa Security Workshop	-	200	-	-	-	-	200
Amenberg Regional Endowment	6,762	-	24,568	(6,000)	-	-	25,330
Asia Pacific Study Group	35,889	-	9,760	(6,000)	-	-	39,649
Batemans NCC Essay Award	6,483	-	2,188	(1,000)	-	-	7,671
Bradley Foundation Genest Grant	113,456	-	-	(103,494)	-	-	9,962
Brecker Library Fund	1,243	-	2,019	(700)	-	-	2,562
Carnes Lord Grant-Smith Richardson	2,215	-	-	(2,215)	-	-	-
Carr Lecture Fund	25,641	-	4,039	(2,300)	-	-	27,380
CDE	500	-	-	-	-	-	500
Classroom Upgrades	7,763	200	-	-	-	-	7,963
CMSI	9,815	29,005	-	-	-	-	38,820
Daley Family Award	16,121	-	4,543	-	-	-	20,664
D'Luhy Handal Prize	-	-	2,524	-	-	-	2,524
Doyle Prize	50	-	-	-	-	-	50
EMC Information Technology Chair	488,775	-	147,242	(82,500)	-	-	553,517
Ethics Program	10,000	-	-	(10,000)	-	-	-
Evening Lecture Endowment	2,500	-	4,880	-	(3,008)	-	4,372
Fairchild International Lecture Fund	131,920	-	6,395	(7,000)	-	-	131,315
Freund International Student Fund	14,437	-	4,880	(2,750)	-	-	16,567
Green Room	7,496	-	-	(7,496)	-	-	-
HA DR Conference	-	66,825	-	-	-	-	66,825
Hattendorf Maritime History Prize	-	50,095	-	-	-	-	50,095
Hayward CDE Award	4,767	-	1,851	(1,000)	-	-	5,618
Jim Hayes Fund	16,750	19,830	-	-	-	-	36,580
John Nicholas Brown Chair & Study Group	341,885	-	140,511	(65,000)	-	-	417,396
Kurth Fund	4,210	-	12,284	(5,875)	-	-	10,619
Larkin USMC Award	1,003	-	2,861	(1,428)	(1,000)	-	1,436
Levy Chair	440,782	-	118,972	(69,126)	-	-	490,628
LM Chairmen's Classroom 2/Mahan Reading Room	225,610	-	-	(183,604)	-	-	42,006
Lowry Visiting Professorship	55,503	-	3,197	(5,000)	-	-	53,700
Maddox Grant	-	60,000	-	-	-	-	60,000
McGinnis Family Award	1,000	-	2,188	(1,000)	(685)	-	1,503
Middendorf Prize	-	-	-	(1,000)	-	1,000	-
Military Operations/International Law Award	6,030	-	1,010	-	-	-	7,040
Miller Lecture Fund	51,254	-	10,770	(6,000)	-	-	56,024
Museum Support	11,190	726	-	(11,190)	-	-	726
Museum: de Weldon Statue	-	2,105	-	-	-	-	2,105
Museum: Historical Maps	-	3,500	-	-	-	-	3,500
Naval Historic Treasures	10,135	-	-	-	-	-	10,135
Naval Order Book Fund	1,128	-	1,010	(100)	-	-	2,038
NCC Support	-	1,168	-	-	-	-	1,168
Nolan Weschler Award	5,384	-	2,524	(250)	-	-	7,658
NWCF Award	7,044	-	2,356	(2,000)	-	-	7,400
NY Navy League Russian Elective 2009	5,000	-	-	(5,000)	-	-	-
NY Navy League Russian Elective 2010	-	2,500	-	-	-	-	2,500
Piracy Conference	8,000	-	-	-	-	-	8,000
Polk Holiday Lunch	1,138	-	168	(126)	-	-	1,180
Polk Model Classroom	30,000	-	-	-	-	-	30,000
Polk Sailors of the Year Award	10,524	-	3,029	(1,800)	-	-	11,753
Pollack/MacArthur Foundation Grant	88,000	-	-	(50,000)	-	-	38,000
Raytheon Asia Pacific Forum	3,125	-	-	-	-	-	3,125
Raytheon China Conference	2,000	-	-	(2,000)	-	-	-
Regional Electives Cluster	158,565	100	-	(15,000)	-	-	143,665
Regional Studies Library-Foreign Language	500	-	-	-	-	-	500
Regional Studies Library	7,216	10	-	-	-	-	7,226
Regional Studies Library-VB grant	120,000	-	-	(60,000)	-	-	60,000
Reinauer Award Fund	4,401	-	1,050	(1,000)	-	-	4,451
Ruger National Security Economics Chair	579,762	-	235,420	(112,988)	-	-	702,194
Sofrenko Lectures	2,000	2,000	-	(2,000)	-	-	2,000
Spruance Lectures	3,000	-	-	(3,000)	-	-	-
SR Genest Grant	4,265	-	-	(4,265)	-	-	-
Strasser Counter-Terrorism Lecture Fund	(2,839)	-	9,760	(1,502)	-	-	5,419
Strasser International Leadership Awards Fund	2,369	-	1,178	(1,000)	-	-	2,547
Student Memorial Fund	544	-	-	-	-	-	544
Thys Award Fund	1,042	-	2,524	(1,375)	(1,000)	-	1,191
Thys Lecture Fund	23,850	-	-	(5,000)	-	-	18,850
Wheeler NCC Fund	9,570	-	841	(500)	-	-	9,911
Woodson Memorial Award	7,746	-	2,019	(886)	-	-	8,879
Zimmerman-Gray Award	1,000	1,000	-	(1,000)	-	-	1,000
Discount on gross contributions and grants receivable	(476)	(6,969)	-	-	-	-	(7,445)
Total	\$ 3,137,488	\$ 232,295	\$ 770,244	\$ (852,770)	\$ (5,693)	\$ 1,000	\$ 3,282,564

NAVAL WAR COLLEGE FOUNDATION, INC.

Charts

Year Ended December 31, 2010

Support and Revenues



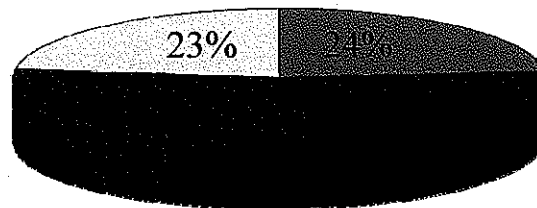
■ Memberships \$571,324

■ Contributions \$1,882,398

□ Net Store Sales and Other \$92,297

□ Net Investment Income \$1,654,595

Expenses



■ Program Services \$475,260

■ Foundation Grants \$1,060,111

□ Management & Development \$458,858

NAVAL WAR COLLEGE FOUNDATION, INC.

Charts

Year Ended December 31, 2009

