

**United States Naval Academy
Periodic Review Report – August 2011
Financial Analysis**

The financial associate reviewed the Periodic Review Report submitted by the Academy and the related supporting documents supplied by it and CHE. As the United States Naval Academy (USNA) is part of the Department of Defense (DOD) and the Department of Navy (DON) no audited financial statements were provided. Managers' Internal Control Program (MICP) Certification Statements were reviewed for fiscal years 2006 through 2010. The associate was also able to review the report to USNA prepared by MSCHE reviewers dated 30 July 2011. The traditional analytical ratios commonly used for higher educational institutions were not possible to calculate.

The Commission's action in June 2006 reaffirming accreditation for USNA did not include any requirements dealing with finances or financial resources, the Academy in its PRR discusses in detail actions taken as a results of the evaluation team's recommendations and its own self recommendations contained in the Self-Study.

The PPR allows the reader to appreciate the unique difficulty the Academy faces in creating financial stability in the current economic times while maintaining the excellence required within its mission statement. Both the Department of Defense and the Department of Navy budgets are formed within a political process with the timing of resolution increasing difficult to predict and most certainly out of step with the academic calendar of USNA. Both the number of midshipmen and significant new curriculum demands are set externally and without direct relationship to resource demands they create. In addition since the last evaluation visit the limited budget flexibility that the Academy possessed has been greatly reduced by shifting control of spending to external commands. Funds the Academy receives are increasingly restricted to specific use with no opportunity to determine most desirable use.

The nation being at war has made it increasingly difficult to maintain the desired 50% ratio between military and civilian faculty. Civilian faculty who directly impact the operating budget now account for almost 60% of total faculty. The Academy is attempting to restore the desired ratio through direct efforts with both Naval and Marine Corp personnel chiefs.

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It appears that in the case of facilities and related deferred maintenance the recent changes in command control have been beneficial to the Academy. Significant progress has been made in dealing with facility problems identified in 2005.

Perhaps the most important financial initiative outlined in the PRR are discussions the Navy leadership to “re-baseline” the Academy’s Core Mission budget which would provide a significant increase in funds. The PRR indicates that the discussions have been positive but were currently not advanced enough to allow them to be discussed in depth in the PRR.

The only practical way to assess the Academy’s current financial condition is to assume that it directly relates to the significant honors both national and international that its recent graduates have achieved. They rival those of any similarly sized institution in the nation. The effect, if any, of the apparent underfunding of operating needs, principally personnel, will be seen in the achievements of future graduates. The assessment tools being implemented and underdevelopment of recent graduates and of their commanders should allow the Academy to monitor and communicate potential problems effectively.