

THE COAST GUARD FOUNDATION, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT



SANSIVERI, KIMBALL & CO., L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Coast Guard Foundation, Inc.:

We have audited the accompanying financial statements of The Coast Guard Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Coast Guard Foundation, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ausneri, Kindell & Co., LLP.

Providence, Rhode Island
August 2, 2016

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (including donor restricted funds of approximately \$400,000 in 2015 and \$500,000 in 2014)	\$ 470,413	\$ 522,733
Unconditional promises to give, net of allowance for uncollectible pledges	921,153	661,334
Prepaid expenses and other current assets	190,348	193,394
Total current assets	1,581,914	1,377,461
INVESTMENTS	7,125,683	7,194,548
UNCONDITIONAL PROMISES TO GIVE, less current portion	200,691	160,001
PROPERTY AND EQUIPMENT, net	933,396	965,804
TOTAL	<u>\$ 9,841,684</u>	<u>\$ 9,697,814</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Note payable - bank	\$ 186,248	\$ 264,247
Accounts payable	30,677	37,422
Accrued liabilities	138,099	240,127
Deferred income	22,500	63,800
Total current liabilities	377,524	605,596
COMMITMENTS (Note 13)		
NET ASSETS:		
Unrestricted:		
Board designated for endowment	1,271,806	1,596,490
Investment in property and equipment	933,396	965,804
Undesignated	736,371	176,030
Total unrestricted	2,941,573	2,738,324
Temporarily restricted	3,382,933	3,337,347
Permanently restricted	3,139,654	3,016,547
Total net assets	9,464,160	9,092,218
TOTAL	<u>\$ 9,841,684</u>	<u>\$ 9,697,814</u>

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	\$ 2,299,238	\$ 1,456,746	\$ 120,073	\$ 3,876,057	\$ 1,838,108	\$ 1,189,560	\$ 64,425	\$ 3,092,093
Gifts in-kind	17,295,831	9,230		17,305,061	11,782,100	18,188		11,800,288
Special event revenue, net of costs of direct benefit to donors of \$536,900 in 2015 and \$467,330 in 2014	2,548,321	70,486		2,618,807	2,515,920	68,420		2,584,340
Investment income, net	77,461	241,942	3,034	322,437	69,664	201,896	3,310	274,870
Net realized and unrealized gains (losses) on investments	(146,330)	(469,760)		(616,090)	7,778	46,449	438	54,665
Rental income	100,436			100,436	96,480			96,480
Boat sales				-	337,500			337,500
Miscellaneous	44,272			44,272	35,640			35,640
Total	22,219,229	1,308,644	123,107	23,650,980	16,683,190	1,524,513	68,173	18,275,876
Net assets released from restrictions	1,303,058	(1,303,058)		-	1,524,101	(1,524,101)		-
Total support and revenue	23,522,287	5,586	123,107	23,650,980	18,207,291	412	68,173	18,275,876
EXPENSES:								
Program services:								
Academy support	521,109			521,109	526,066			526,066
District wide support	1,765,651			1,765,651	1,995,673			1,995,673
Assistance to families	756,860			756,860	1,110,771			1,110,771
Public awareness	18,015,450			18,015,450	12,167,159			12,167,159
Total program services	21,059,070	-	-	21,059,070	15,799,669	-	-	15,799,669
Supporting services:								
Administrative and general	732,444			732,444	724,002			724,002
Development and fundraising	1,487,524			1,487,524	1,449,579			1,449,579
Total supporting services	2,219,968	-	-	2,219,968	2,173,581	-	-	2,173,581
Total program and supporting services expenses	23,279,038	-	-	23,279,038	17,973,250	-	-	17,973,250
CHANGE IN NET ASSETS	243,249	5,586	123,107	371,942	234,041	412	68,173	302,626
NET ASSETS, BEGINNING OF THE YEAR	2,738,324	3,337,347	3,016,547	9,092,218	2,504,283	3,336,935	2,948,374	8,789,592
TRANSFERS	(40,000)	40,000		-				-
NET ASSETS, END OF THE YEAR	\$ 2,941,573	\$ 3,382,933	\$ 3,139,654	\$ 9,464,160	\$ 2,738,324	\$ 3,337,347	\$ 3,016,547	\$ 9,092,218

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services					Supporting Services		
	Academy Support	District Wide Support	Assistance to Families	Public Awareness	Total Program	Administrative and General	Development and Fundraising	Total
Grants to the U.S. Coast Guard:								
Educational support	\$ 151,414	\$ 392,000	\$ 495,313		\$ 1,038,727			\$ 1,038,727
Academy waterfront program	68,200				68,200			68,200
Morale and welfare	60,805	409,250			470,055			470,055
Shipmate funds		552,869			552,869			552,869
Special projects		49,096	51,484		100,580			100,580
Athletics	65,000				65,000			65,000
Public outreach	25,000	25,000			50,000			50,000
Fallen heroes			101,512		101,512			101,512
Auxiliary support		61,400			61,400			61,400
Boat donation program	5,349				5,349			5,349
Public service announcements				\$ 17,185,450	17,185,450			17,185,450
Salaries and benefits	87,643	200,666	96,697	133,356	518,362	\$ 428,698	\$ 554,435	1,501,495
Event production costs	1,067			376,391	377,458		82,918	460,376
Direct mail solicitations				55,275	55,275	27,222	514,790	597,287
Donor cultivation					-		56,882	56,882
Video production				42,918	42,918		22,773	65,691
Promotional and advertising				49,404	49,404		9,208	58,612
Travel	267	35,191	202	16,577	52,237	33,678	47,213	133,128
Receptions and meetings		20,452			20,452	47,367		67,819
Printing and postage costs	4	1,555	452	32,554	34,565	9,346	40,342	84,253
Professional fees				78,226	78,226	82,795	65,873	226,894
Information technology				3,896	3,896	4,689	3,701	12,286
Occupancy	35,486	4,501	4,501	28,989	73,477	15,251	23,856	112,584
Telephone	490	407		691	1,588	4,722	6,906	13,216
Office expense	1,226	357		2,361	3,944	22,166	28,069	54,179
Miscellaneous	1,766	9,520	3,312	5,437	20,035	46,005	11,815	77,855
Total expenses before depreciation and amortization	503,717	1,762,264	753,473	18,011,525	21,030,979	721,939	1,468,781	23,221,699
Depreciation and amortization	17,392	3,387	3,387	3,925	28,091	10,505	18,743	57,339
Total	\$ 521,109	\$ 1,765,651	\$ 756,860	\$ 18,015,450	\$ 21,059,070	\$ 732,444	\$ 1,487,524	\$ 23,279,038

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services					Supporting Services		
	Academy Support	District Wide Support	Assistance to Families	Public Awareness	Total Program	Administrative and General	Development and Fundraising	Total
Grants to the U.S. Coast Guard:								
Educational support	\$ 110,868	\$ 309,000	\$ 339,111		\$ 758,979			\$ 758,979
Academy waterfront program	45,700				45,700			45,700
Morale and welfare	50,000	366,807	45,675		462,482			462,482
Shipmate funds		642,213			642,213			642,213
Special projects		66,733	590,510		657,243			657,243
Athletics	23,500				23,500			23,500
Public outreach	37,000	50,000			87,000			87,000
Fallen heroes			47,335		47,335			47,335
Auxiliary support		60,355			60,355			60,355
Boat donation program	125,873	275,000			400,873			400,873
Public service announcements				\$ 11,354,028	11,354,028			11,354,028
Salaries and benefits	68,440	150,162	68,495	185,459	472,556	\$ 400,801	\$ 498,141	1,371,498
Event production costs				370,529	370,529		93,888	464,417
Direct mail solicitations					-	29,470	604,124	633,594
Donor cultivation					-		34,024	34,024
Video production				73,448	73,448		10,211	83,659
Promotional and advertising				3,665	3,665		3,919	7,584
Travel	373	42,481	31	18,820	61,705	34,267	55,775	151,747
Receptions and meetings		3,204			3,204	52,108		55,312
Printing and postage costs		1,066	1,178	44,065	46,309	5,913	36,690	88,912
Professional fees				97,330	97,330	56,625	14,533	168,488
Information technology	253	253	379	3,402	4,287	23,166	9,919	37,372
Occupancy	44,547	5,845	8,768	6,445	65,605	9,696	22,627	97,928
Telephone	843	720	544	1,059	3,166	2,365	6,307	11,838
Office expense	679	13,808	212	1,514	16,213	7,444	36,532	60,189
Miscellaneous	262	3,403	2,618	436	6,719	90,440	977	98,136
Total expenses before depreciation and amortization	508,338	1,991,050	1,104,856	12,160,200	15,764,444	712,295	1,427,667	17,904,406
Depreciation and amortization	17,728	4,623	5,915	6,959	35,225	11,707	21,912	68,844
Total	\$ 526,066	\$ 1,995,673	\$ 1,110,771	\$ 12,167,159	\$ 15,799,669	\$ 724,002	\$ 1,449,579	\$ 17,973,250

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 371,942	\$ 302,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	616,090	(54,665)
(Gain) loss on sale of equipment	(4,519)	6,396
Depreciation and amortization	57,339	68,844
Changes in operating assets and liabilities:		
Unconditional promises to give	(300,509)	(79,570)
Prepaid expenses and other current assets	3,046	36,678
Accounts payable	(6,745)	(24,688)
Accrued liabilities	(102,028)	53,958
Deferred income	(41,300)	25,170
Contributions restricted for long-term investment	(101,673)	(87,319)
NET CASH PROVIDED BY OPERATING ACTIVITIES	491,643	247,430
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of:		
Investments	(3,829,793)	(4,284,309)
Property and equipment	(25,162)	(33,028)
Proceeds from sales of:		
Investments	3,282,568	3,050,232
Equipment	4,750	3,610
NET CASH USED BY INVESTING ACTIVITIES	(567,637)	(1,263,495)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable - bank	-	220,500
Payments on note payable - bank	(77,999)	(409,450)
Proceeds from contributions restricted for long-term investment	101,673	87,319
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	23,674	(101,631)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(52,320)	(1,117,696)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	522,733	1,640,429
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 470,413	\$ 522,733
SUPPLEMENTAL CASH FLOW INFORMATION -		
Cash payments for interest	\$ 7,800	\$ 11,400

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Coast Guard Foundation, Inc. (the Foundation) is a not-for-profit public charity incorporated in 1969. Our mission is to support members of the United States Coast Guard and their families; to honor and recognize the accomplishments of the Coast Guard and its personnel; and to bring awareness to the public of the critical role the Coast Guard plays in serving and protecting our country.

The Foundation supports the Coast Guard community in three key areas – education, support and relief. The Foundation is committed to supporting education, inspiring leadership, and creating a proud legacy of service to our nation by supporting the men and women who protect our homeland, enforce maritime law, and preserve the environment.

Education

The Foundation supports Coast Guard members and their families through a variety of scholarships and grants for higher education. We award scholarships and grants to active duty enlisted members, their spouses, and their children so they can pursue their educational goals. For families whose loved one died as the result of an operational casualty, the Foundation is committed to honoring their sacrifices by ensuring that their children go to college for free.

Developing future leaders of character within the Coast Guard is also a key initiative for the Foundation. Each year we support the United States Coast Guard Academy's initiatives in academic enrichment, leadership development, and athletics. Our margin of excellence support helps to produce commissioned officers that will effectively serve the Coast Guard and our country.

Support

In times of triumph and through adversity, the Foundation's programs focus on enriching the lives of Coast Guard service members, and their families, since a strong support system is crucial for mission readiness. We support Coast Guard member readiness, both onshore and at sea, by providing equipment that promotes fitness, morale and health.

The Foundation supports families by providing funds for playgrounds and community centers to enhance the lives of Coast Guard members and their families where they live and serve.

The Foundation supports the Coast Guard and its mission through our many recognition events that honor Coast Guard heroes throughout the country. These events also raise awareness of the critical role that the Coast Guard plays in serving and protecting our country, by highlighting the accomplishments within the communities they serve.

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Relief

When a Coast Guard member dies or is critically injured in the line of duty, the Foundation offers comfort, relief and emergency assistance to family and shipmates of the fallen. The Foundation works closely with the Coast Guard to make sure the family is supported during these difficult, heart-wrenching situations, that the immediate crew has the resources they need to heal, and that the lost loved one is appropriately honored for their service to our country.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are classified into three classes of net assets as follows:

- Unrestricted net assets – Unrestricted net assets are those net assets that are not subject to either permanent or temporary donor imposed restrictions.
- Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is restricted by donor-imposed stipulations that either expire by passage of time or by fulfillment of the imposed restriction. When a donor restriction expires or a purpose restriction is accomplished, then temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as assets released from restriction.
- Permanently restricted net assets – Permanently restricted net assets result from contributions with donor-imposed restrictions, which require the principal be invested in perpetuity and only the income is to be utilized by the Foundation. Income, including realized and unrealized gains and losses, may be utilized for unrestricted or temporarily restricted purposes as established by the donor.

Cash Equivalents

Cash equivalents include highly liquid assets that have not been restricted by the donor for long-term purposes.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Material unconditional promises to give that are expected to be

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collected in a period beyond one year are recorded at net realizable value, discounted for the present value of estimated future cash flows. The discounts on those amounts are computed using the Foundation's internal investment rate of return applicable to the year of the gift and are included in contribution revenue. As of December 31, 2015 and 2014, there was no discount required to determine present value.

Investments

Investments are reported at fair value. Investment income, as reported in the accompanying statements of activities, is reported net of management fees and includes interest and dividends.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of the donation.

Property and equipment are depreciated and amortized using the straight-line method over the respective estimated useful lives of the assets.

Deferred Income

Deferred income represents special event sponsorships collected in advance. Such amounts will be recognized as revenue in the subsequent year, which is when such special events will take place.

Donated Property

Donations of investment securities and other property items are recorded at their estimated fair market values at the date of donation. Non-monetary items are recorded at realizable value or at fair value when received, which is typically determined by an independent appraisal.

Contributed Services

Contributed services are required to be recorded in the accompanying financial statements at their estimated fair value at the time such services are provided to the extent that they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Foundation.

During the years ended December 31, 2015 and 2014, television public service announcement airtime, which was valued at \$17,185,450 and \$11,354,028, respectively, was donated to the Foundation for its Public Awareness program. The fair value of the public service announcements was obtained from the donor and based on the cost that would have been incurred by the Foundation if it were required to purchase the airtime.

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In addition, many individuals volunteer their time to the Foundation's program services and other activities. The value of these services has not been recognized in the accompanying financial statements, as it does not create or enhance nonfinancial assets or require specialized skills, which if not provided by donation, would have to be purchased by the Foundation.

Allocation of Functional Expenses

Certain expenses are allocated to program and supporting services on the basis of employee time involved or other allocable bases. Expenses incurred for benefiting a single function are reported directly into the appropriate function.

Tax-Exempt Status

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and comparable state law as a charitable organization, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code is subject to Federal income tax. The Foundation had no unrelated business income for the years ended December 31, 2015 and 2014. Accordingly, a provision for income taxes has not been recorded in the accompanying financial statements.

Management does not believe there are any material uncertain tax positions requiring disclosure or recognition. For the years ended December 31, 2015 and 2014, there were no interest or tax penalties recorded or included in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 those estimates.

Reclassifications

Certain amounts reported in the 2014 statement of cash flows have been reclassified to conform to the 2015 presentation. Specifically, contributions restricted for long-term investment was reclassified from operating activities to financing activities.

Subsequent Events

Management has evaluated subsequent events through August 2, 2016, which is the date the financial statements were available to be issued.

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THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

2. UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2015 and 2014, unconditional promises to give consist of the following:

	2015	2014
Receivable due in less than one year	\$ 946,153	\$ 686,334
Less allowance for uncollectible pledges	25,000	25,000
Net receivable due in less than one year	921,153	661,334
Receivable due in one to five years	200,691	160,001
Total net unconditional promises to give	<u>\$ 1,121,844</u>	<u>\$ 821,335</u>

3. INVESTMENTS

As of December 31, 2015 and 2014, the Foundation's investments consisted of the following:

	2015	2014
Money market funds	\$ 13,664	\$ 212,615
Mutual funds:		
Fixed income bond funds	1,783,236	1,779,515
Large growth funds	2,622,172	2,067,587
International equity fund	590,788	605,551
Equity energy fund	-	624,907
Small growth fund	291,340	324,267
Small blend fund	314,663	325,906
Total mutual funds	<u>5,602,199</u>	<u>5,727,733</u>
Bonds:		
U.S. Treasury and federal agencies	1,313,579	1,003,072
Corporate	196,241	251,128
Total bonds	<u>1,509,820</u>	<u>1,254,200</u>
Total	<u>\$ 7,125,683</u>	<u>\$ 7,194,548</u>

As of December 31, 2015 and 2014, \$3,116,404 and \$3,012,766, respectively, of the Foundation's investments were permanently restricted for investment in perpetuity.

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For the years ended December 31, 2015 and 2014, net investment income included in the statements of activities and changes in net assets consisted of the following:

	2015	2014
Investment income (expenses):		
Interest and dividends	\$ 360,691	\$ 310,729
Management fees	(38,254)	(35,859)
Total investment income, net	<u>\$ 322,437</u>	<u>\$ 274,870</u>

For the years ended December 31, 2015 and 2014, net realized and unrealized gains (losses) included in the accompanying statements of activities and changes in net assets are as follows:

	2015	2014
Net realized gains	\$ 168,036	\$ 86,740
Net unrealized losses	(784,126)	(32,075)
Total	<u>\$ (616,090)</u>	<u>\$ 54,665</u>

Investment income and gains and losses are allocated to individual donor funds based upon the balance of each fund in relation to the total of investments within the portfolio.

4. FAIR VALUE MEASUREMENTS

Fair value is based on 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. In order to increase consistency and comparability in fair value measurements, U.S. GAAP established a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices, other than quoted prices within Level 1, including:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability.

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- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs which are used when little or no market activity is available at the measurement date. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Foundation utilizes valuation methodologies that maximize the use of observable inputs to the extent possible.

Investments carried at fair value at December 31, 2015 and 2014 are as follows:

	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2015				
Investments:				
Money market funds	\$ 13,664	\$ 13,664		
Mutual funds	5,602,199	5,602,199		
Bonds	1,509,820		\$ 1,509,820	
Total	<u>\$ 7,125,683</u>	<u>\$ 5,615,863</u>	<u>\$ 1,509,820</u>	<u>\$ -</u>
2014				
Investments:				
Money market funds	\$ 212,615	\$ 212,615		
Mutual funds	5,727,733	5,727,733		
Bonds	1,254,200		\$ 1,254,200	
Total	<u>\$ 7,194,548</u>	<u>\$ 5,940,348</u>	<u>\$ 1,254,200</u>	<u>\$ -</u>

The following is a description of the valuation methodology used for Level 2 assets measured within the fair value hierarchy as of December 31, 2015 and 2014. There have been no changes in this methodology used at December 31, 2015 and 2014.

Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

These methodologies may produce fair value calculations that may not have been indicative of net realizable values or reflective of future fair values. Furthermore, although management believes its valuation methodologies are appropriate and consistent with other market participants, the use

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of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

5. PROPERTY AND EQUIPMENT

As of December 31, 2015 and 2014, the components of property and equipment are as follows:

	2015	2014
Land and land improvements	\$ 487,551	\$ 484,751
Building	885,135	871,283
Furniture and equipment	221,140	229,369
Website	81,703	81,703
Total	1,675,529	1,667,106
Less accumulated depreciation and amortization	742,133	701,302
Property and equipment, net	<u>\$ 933,396</u>	<u>\$ 965,804</u>

6. NOTE PAYABLE – BANK

Note payable - bank consists of a revolving line-of-credit agreement with a bank. The note, as amended in June 2014, provides for maximum available borrowings of \$750,000. The note is payable on demand and is secured by unconditional promises to give and equipment. Payments of interest only are due monthly and are calculated at 0.50% above the bank's prime rate, which was 3.50% at December 31, 2015. In no event will the interest rate be less than 3.25%.

7. NET ASSETS

Temporarily Restricted Net Assets

As of December 31, 2015 and 2014, the Foundation has temporarily restricted net assets available for the following purposes:

	2015	2014
U.S. Coast Guard Academy support	\$ 638,871	\$ 547,903
District wide support	619,361	707,516
Assistance to families	2,124,701	2,081,928
Total	<u>\$ 3,382,933</u>	<u>\$ 3,337,347</u>

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Permanently Restricted Net Assets

As of December 31, 2015 and 2014, permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following:

	2015	2014
U.S. Coast Guard Academy support	\$ 808,546	\$ 807,584
District wide support	613,918	611,732
Assistance to families	1,604,580	1,484,621
Administrative and general purposes	112,610	112,610
Total	<u>\$ 3,139,654</u>	<u>\$ 3,016,547</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, the passage of time or by occurrence of events specified by donors. The amounts released during the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
U.S. Coast Guard Academy support	\$ 126,021	\$ 70,216
District wide support	520,002	554,565
Assistance to families	657,035	899,320
Total	<u>\$ 1,303,058</u>	<u>\$ 1,524,101</u>

8. GIFTS IN-KIND

For the years ended December 31, 2015 and 2014, gifts in-kind consisted of the following:

	2015	2014
Air time for public service announcements	\$ 17,185,450	\$ 11,354,028
Boats and related equipment	10,230	375,000
Common stock	-	1,576
Consumer goods to be donated to the U.S. Coast Guard	66,784	46,570
Other	42,597	23,114
Total	<u>\$ 17,305,061</u>	<u>\$ 11,800,288</u>

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9. RENTAL INCOME

The Foundation leases a portion of its land to an unrelated third party. The lease expires on December 31, 2020 and contains renewal options for four successive fifteen year terms and one nine year renewal term.

As of December 31, 2015 and 2014, property related to the Foundation's real estate leasing operation consisted of land with a cost and carrying value of approximately \$312,000.

Future minimum lease income to be received as of December 31, 2015, excluding renewal options and inflationary adjustments, is as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 100,000
2017	100,000
2018	100,000
2019	100,000
2020	<u>100,000</u>
Total	<u>\$ 500,000</u>

Rental income associated with this lease was approximately \$100,000 and \$96,000, respectively, for each of the years ended December 31, 2015 and 2014.

10. ENDOWMENT

The Foundation's endowment includes both donor-restricted endowment funds and unrestricted funds designated by the Board of Directors to provide income for Foundation purposes. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Massachusetts Uniform Prudent Management Institutional Funds Act (MA UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds, absent donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is

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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 MA UPMIFA.

In accordance with MA UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policy of the Foundation.

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 organization to retain as a fund of perpetual duration. There were funds with deficiencies of approximately \$70 and \$26,000 as of December 31, 2015 and 2014, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets with a goal of capital enhancement and preservation over time, both in nominal and real terms while minimizing volatility through diversification and a sound asset allocation policy.

The long-term goal of the endowment fund is a total return target of 6% to 8%, net of inflation and expenses, compounded annually. Total returns include investment income plus realized and unrealized gains and losses on endowment fund assets. Actual returns in any given year may vary from this goal.

The investment manager operates within specific guidelines that are determined by the investment committee and described in the investment policy statement. Such statement is periodically reviewed and updated. Investment performance for each asset class is measured against an appropriate index. It is expected that the equity holdings will outperform their respective relevant benchmark over a normal market cycle of three to five years.

Strategies Employed for Achieving Objectives

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 to achieve its long-term return objectives within prudent risk constraints.

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Spending Policy and How the Investment Objectives Relate to Spending Policy

Distributions of assets for any calendar year shall not exceed any of the following guidelines:

- An amount not to exceed 5% of the three year average market value of the endowment funds as of December 31st of the previous years. The Foundation understands that a period of depressed investment values, absent new endowment gifts, will result in decreased distributions.
- In establishing this policy the Foundation considered long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2% to 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.
- In no case will any donor-imposed restriction on any funds in the endowment be compromised. The policy does not apply to, and therefore does not limit the specific use of, restricted funds as specified by the donor.

Endowment Net Asset Classification as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 2,356,254	\$ 3,116,404	\$ 5,472,658
Board-designated	1,271,806	-	-	1,271,806
	<u>\$ 1,271,806</u>	<u>\$ 2,356,254</u>	<u>\$ 3,116,404</u>	<u>\$ 6,744,464</u>

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Changes in Endowment Net Assets for the Year Ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 1,596,490	\$ 2,081,696	\$ 3,012,766	\$ 6,690,952
Investment return:				
Investment income, net of management fees	72,039	240,893	3,034	315,966
Net depreciation (realized and unrealized)	(146,003)	(469,760)	-	(615,763)
Total investment return	(73,964)	(228,867)	3,034	(299,797)
Contributions received and invested	-	825,064	100,604	925,668
Appropriation for expenditure	-	(361,639)	-	(361,639)
Decrease in amounts designated by Board of Directors for endowment purposes	(210,720)	-	-	(210,720)
Other changes - endowment transfers	(40,000)	40,000	-	-
Endowment net assets - end of the year	<u>\$ 1,271,806</u>	<u>\$ 2,356,254</u>	<u>\$ 3,116,404</u>	<u>\$ 6,744,464</u>

Endowment Net Asset Classification as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 2,081,696	\$ 3,012,766	\$ 5,094,462
Board-designated	1,596,490	-	-	1,596,490
	<u>\$ 1,596,490</u>	<u>\$ 2,081,696</u>	<u>\$ 3,012,766</u>	<u>\$ 6,690,952</u>

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Changes in Endowment Net Assets for the Year Ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 1,055,420	\$ 1,928,685	\$ 2,921,701	\$ 5,905,806
Investment return:				
Investment income, net of management fees	59,500	201,863	3,310	264,673
Net appreciation (realized and unrealized)	13,586	46,449	438	60,473
Total investment return	73,086	248,312	3,748	325,146
Contributions received and invested	218,035	154,648	87,317	460,000
Appropriation for expenditure Designated by Board of Directors for endowment purposes	-	(249,949)	-	(249,949)
	249,949	-	-	249,949
Endowment net assets - end of the year	\$ 1,596,490	\$ 2,081,696	\$ 3,012,766	\$ 6,690,952

11. SPECIAL EVENTS

The Foundation holds a number of special events in order to generate awareness and raise funds. For the years ended December 31, 2015 and 2014, special events consisted of the following:

	2015	2014
Gross receipts generated by special events	\$ 3,155,707	\$ 3,051,670
Less direct expenses incurred by:		
Program services	(750,653)	(683,465)
Development and fundraising	(703,034)	(636,910)
Special events income, net	\$ 1,702,020	\$ 1,731,295

For the years ended December 31, 2015 and 2014, the contribution portion of the gross receipts raised was \$2,618,807 and \$2,584,340, respectively.

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12. EMPLOYEE BENEFIT PLAN

The Foundation has a defined contribution retirement plan covering substantially all employees. Such plan qualifies under Section 403(b) of the Internal Revenue Code. Under the plan, the Foundation will make a matching contribution for each eligible participant up to a maximum of 4% of each participant's eligible compensation. For the years ended December 31, 2015 and 2014, the Foundation's contributions to the plan amounted to approximately \$44,900 and \$39,700, respectively.

13. COMMITMENTS

Scholarships

The Foundation provided approximately \$440,000 in scholarship awards to 86 children of Coast Guard enlisted members during 2015 and \$306,000 to 58 children in 2014. Most of these awards are one year awards that students may reapply for annually. Certain highly qualified applicants receive four year awards. The continuances of the scholarships award are dependent upon the student maintaining a 3.0 grade point average (GPA).

Beginning in 2015, the Fallen Heroes Scholarship Fund began to provide scholarships to children whose parent died in the line of duty. The scholarship covers tuition and certain other educational costs. As of December 31, 2015, these scholarships have been awarded to 3 students; an additional 23 children will become eligible for scholarships between 2018 and 2030.

As of December 31, 2015, the Foundation had committed to the following scholarships which are subject to the student maintaining a 3.0 GPA:

<u>Year</u>	<u>Amount</u>
2016	\$ 185,000
2017	110,142
2018	80,000
2019	18,545
Total	<u>\$ 393,687</u>

Event Contracts

During 2015, the Foundation signed various contracts relating to events to be held in 2016. As of December 31, 2015, the approximate future obligations under these contracts totaled approximately \$130,000, of which the Foundation has paid deposits of approximately \$61,000.

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14. ALLOCATION OF JOINT COSTS

During the years ended December 31, 2015 and 2014, the Foundation incurred joint costs for activities that included fundraising appeals. Such costs represent costs incurred for certain publications. For the years ended December 31, 2015 and 2014, the approximate allocation of joint costs are as follows:

	2015	2014
Program services	\$ 80,000	\$ 65,000
Support services:		
Administrative and general	6,000	7,000
Development and fundraising	66,000	18,000
Total approximate joint costs	<u>\$ 152,000</u>	<u>\$ 90,000</u>

15. CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments which potentially subject the Foundation to concentrations of credit and market risk are as follows:

Cash and cash equivalents subject the Foundation to credit risk in that, from time to time, cash deposits exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000. Management considers such circumstances to be normal business risks.

The Foundation's investments are subject to both credit and market risk. These investments consist of a diversified portfolio of mutual funds, U.S. Treasury and federal agencies bonds, corporate bonds and money market funds. Management believes the diversity of the portfolio minimizes the risk of loss.

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