

THE COAST GUARD FOUNDATION, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT



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



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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, 2016 and 2015, 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, 2016 and 2015, 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.

Sansivni, Kimball & Co., LLP

Providence, Rhode Island
June 2, 2017

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	2016	2015		2016	2015
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 863,311	\$ 470,413	Note payable - bank	\$ 121,248	\$ 186,248
Unconditional promises to give, net of allowance for uncollectible pledges	575,724	921,153	Accounts payable	64,972	30,677
Prepaid expenses and other current assets	165,427	190,348	Accrued liabilities	157,989	160,599
Total current assets	1,604,462	1,581,914	Total current liabilities	344,209	377,524
INVESTMENTS	7,634,130	7,125,683	COMMITMENTS (NOTE 12)		
UNCONDITIONAL PROMISES TO GIVE, less current portion	123,228	200,691	NET ASSETS:		
PROPERTY AND EQUIPMENT - At cost:			Unrestricted:		
Land and land improvements	487,551	487,551	Board designated for endowment	1,506,238	1,271,806
Building	885,135	885,135	Investment in property and equipment	899,463	933,396
Furniture and equipment	232,064	221,140	Undesignated	987,437	736,371
Website	81,703	81,703	Total unrestricted	3,393,138	2,941,573
Total	1,686,453	1,675,529	Temporarily restricted	3,361,682	3,382,933
Less accumulated depreciation and amortization	786,990	742,133	Permanently restricted	3,162,254	3,139,654
Property and equipment, net	899,463	933,396	Total net assets	9,917,074	9,464,160
TOTAL	\$ 10,261,283	\$ 9,841,684	TOTAL	\$ 10,261,283	\$ 9,841,684

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	\$ 2,120,945	\$ 894,309	\$ 20,785	\$ 3,036,039	\$ 2,259,238	\$ 1,496,746	\$ 120,073	\$ 3,876,057
Gifts in-kind	11,605,708	23,974		11,629,682	17,295,831	9,230		17,305,061
Special event revenue, net of costs of direct benefit to donors of \$434,850 in 2016 and \$536,900 in 2015	2,800,790	175,350		2,976,140	2,548,321	70,486		2,618,807
Investment return, net	69,404	212,411	1,815	283,630	(68,869)	(227,818)	3,034	(293,653)
Rental income	100,436			100,436	100,436			100,436
Boat sales	1,500			1,500				-
Miscellaneous	49,751			49,751	44,272			44,272
Total	16,748,534	1,306,044	22,600	18,077,178	22,179,229	1,348,644	123,107	23,650,980
Net assets released from restrictions	1,327,295	(1,327,295)		-	1,303,058	(1,303,058)		-
Total support and revenue	18,075,829	(21,251)	22,600	18,077,178	23,482,287	45,586	123,107	23,650,980
EXPENSES:								
Program services:								
Academy support	1,509,284			1,509,284	521,109			521,109
District wide support	1,706,791			1,706,791	1,765,651			1,765,651
Assistance to families	801,267			801,267	756,860			756,860
Public awareness	11,216,186			11,216,186	18,015,450			18,015,450
Total program services	15,233,528	-	-	15,233,528	21,059,070	-	-	21,059,070
Supporting services:								
Administrative and general	853,197			853,197	732,444			732,444
Development and fundraising	1,537,539			1,537,539	1,487,524			1,487,524
Total supporting services	2,390,736	-	-	2,390,736	2,219,968	-	-	2,219,968
Total program and supporting services expenses	17,624,264	-	-	17,624,264	23,279,038	-	-	23,279,038
CHANGE IN NET ASSETS	451,565	(21,251)	22,600	452,914	203,249	45,586	123,107	371,942
NET ASSETS, BEGINNING 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
NET ASSETS, END OF THE YEAR	\$ 3,393,138	\$ 3,361,682	\$ 3,162,254	\$ 9,917,074	\$ 2,941,573	\$ 3,382,933	\$ 3,139,654	\$ 9,464,160

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services					Supporting Services		Total
	Academy Support	District Wide Support	Assistance to Families	Public Awareness	Total Program	Administrative and General	Development and Fundraising	
Grants to the U.S. Coast Guard:								
Educational support	\$ 114,433	\$ 8,000	\$ 596,336		\$ 718,769			\$ 718,769
Academy waterfront program	44,400				44,400			44,400
Morale and welfare	60,975	598,027	16,600		675,602			675,602
Shipmate funds		678,824			678,824			678,824
Special projects		77,000			77,000			77,000
Athletics	56,700				56,700			56,700
Public outreach	48,000	25,000			73,000			73,000
Fallen heroes			89,964		89,964			89,964
Auxiliary support		89,400			89,400			89,400
Boat donation program	1,055,168				1,055,168			1,055,168
Public service announcements				\$ 10,245,586	10,245,586			10,245,586
Salaries and benefits	73,152	184,075	87,321	128,957	473,505	\$ 416,467	\$ 550,347	1,440,319
Event production costs				408,047	408,047		165,564	573,611
Direct mail solicitations				88,666	88,666	37,587	550,719	676,972
Donor cultivation					-		52,899	52,899
Video production				70,126	70,126		16,000	86,126
Promotional and advertising				108,926	108,926		2,765	111,691
Travel	688	29,747	8	13,981	44,424	31,328	35,193	110,945
Receptions and meetings		545			545	78,171		78,716
Printing and postage costs		403	318	46,385	47,106	9,162	43,537	99,805
Professional fees				57,922	57,922	61,102	64,719	183,743
Information technology				1,734	1,734	3,393	462	5,589
Occupancy	39,472	4,611	4,611	33,647	82,341	22,273	24,422	129,036
Telephone	480	312		848	1,640	5,119	5,596	12,355
Office expense	95	10		1,469	1,574	24,833	10,813	37,220
Miscellaneous	49	7,872	3,144	6,398	17,463	154,210	4,294	175,967
Total expenses before depreciation and amortization	1,493,612	1,703,826	798,302	11,212,692	15,208,432	843,645	1,527,330	17,579,407
Depreciation and amortization	15,672	2,965	2,965	3,494	25,096	9,552	10,209	44,857
Total	\$ 1,509,284	\$ 1,706,791	\$ 801,267	\$ 11,216,186	\$ 15,233,528	\$ 853,197	\$ 1,537,539	\$ 17,624,264

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		Total
	Academy Support	District Wide Support	Assistance to Families	Public Awareness	Total Program	Administrative and General	Development and Fundraising	
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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 452,914	\$ 371,942
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(143,714)	616,090
Gain on sale of equipment	-	(4,519)
Depreciation and amortization	44,857	57,339
Changes in operating assets and liabilities:		
Unconditional promises to give	422,892	(300,509)
Prepaid expenses and other current assets	24,921	3,046
Accounts payable	34,295	(6,745)
Accrued liabilities	(2,610)	(143,328)
Contributions restricted for long-term investment	(26,085)	(101,673)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>807,470</u>	<u>491,643</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of:		
Investments	(7,975,827)	(3,829,793)
Property and equipment	(10,924)	(25,162)
Proceeds from sales of:		
Investments	7,611,094	3,282,568
Equipment	-	4,750
NET CASH USED BY INVESTING ACTIVITIES	<u>(375,657)</u>	<u>(567,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable - bank	(65,000)	(77,999)
Proceeds from contributions restricted for long-term investment	26,085	101,673
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(38,915)</u>	<u>23,674</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	392,898	(52,320)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>470,413</u>	<u>522,733</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$ 863,311</u></u>	<u><u>\$ 470,413</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION -		
Cash payments for interest	<u><u>\$ 6,000</u></u>	<u><u>\$ 7,800</u></u>

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Programs of the Coast Guard Foundation

The Coast Guard Foundation, Inc. (the Foundation) is a national nonprofit organization incorporated in 1986. However, it traces its roots to 1969, when the Coast Guard Academy Foundation was established to raise funds to enrich programs and morale for the cadets. The mid-1980's were times of declining budgets throughout the entire Service, so the founders determined to expand their support beyond the Academy to also include the men, women and families of the entire Coast Guard. True to that vision of helping the broadest group possible, today's Foundation has a widely felt and positive impact on the well-being, retention and professionalism of the Coast Guard's workforce and their families. Additionally, the Foundation honors and highlights the accomplishments of the Coast Guard to heighten public awareness of the Service's critical roles in serving and protecting the Nation.

The Foundation focuses on three key program areas – Education, Support and Relief.

Education

The Foundation sponsors a variety of scholarships and grants that enable life-changing opportunities. The commitment to scholarships helps make the dream of a college education a reality for the children of enlisted members. Active duty enlisted members can draw upon the Foundation's education grants for off-duty college studies or professional certifications. The spouses of enlisted members can also use the Foundation's education grants to pursue post-secondary degrees and professional training. In the event of tragedy, the Foundation's Fallen Heroes Scholarship Fund honors those who have made the ultimate sacrifice; these scholarships provide for 100% of the expenses of a college education for the children of Coastguardsmen killed in an operational mishap. In addition, each year the Foundation underwrites a variety of academic and leadership initiatives to enhance the curriculum, research and cadet experiences at the Coast Guard Academy.

Support

The Coast Guard's motto is *Semper Paratus* and the Foundation is proud to direct funds to programs and equipment that help the Service remain *Always Ready*. Through the Shipmate Fund, the Foundation works closely with the Coast Guard to identify the best equipment and resources to maximize good health and well-being at units across the Nation. The most requested items are exercise and fitness equipment, recreational gear, computers and software for after-hours education, and crew lounge furnishings, to name just a few of the many things that are provided each year. As funds permit, the Foundation undertakes small capital construction projects, which have included a swimming pool, bowling alley, tennis and basketball courts, a community center in a Coast Guard-owned housing area, playgrounds and rock climbing walls. Whether ships deployed for months at a time or units ashore, the Foundation is a strong partner in making life a bit better for members and their families.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Annual tribute events are the Foundation's way of highlighting the achievements of the Coast Guard to the public. These include widely attended dinners to acknowledge exceptional heroism by a Coast Guard crew or individual rescuer, receptions to meet Coast Guard members to learn about their duties and responsibilities, golf tournaments and Runs to Remember. These events are significant to raising awareness across America of the Coast Guard's deep history, unique abilities and authorities, relevance to maritime safety and security, and excellence in mission performance.

Relief

The Foundation's mission includes "rescuing the rescuers" when tragedy strikes the Service. Hurricanes, flooding, or other natural disasters are often the times when the Coast Guard must respond and families are left behind to cope. The Foundation is at the ready with funds and emergency supplies to help with immediate relief and recovery from devastation. When a Coast Guard member dies or is critically injured in the line of duty, the Foundation offers comfort and generous assistance to family and shipmates. The Foundation works closely with the Coast Guard to make sure support is readily available for the family and crew in difficult, heart-wrenching situations, that the immediate crew has the resources to facilitate healing, and that the lost loved one is appropriately honored for their military service.

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, 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.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period the promise is made. 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 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, 2016 and 2015, a discount to determine present value was not considered necessary.

Investments

Investments are reported at fair value. Investment income is reported net of management fees.

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.

Accrued Liabilities

Accrued liabilities also include 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 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.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

During the years ended December 31, 2016 and 2015, television public service announcement airtime, which was valued at \$10,245,586 and \$17,185,450, 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. Such amounts are reported as support and revenue (gifts in-kind) and as expenses (public awareness) in the accompanying statements of activities and changes in net assets.

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.

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 did not have any unrelated business income for the years ended December 31, 2016 and 2015. 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, 2016 and 2015, there were no tax related interest or 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 2015 financial statements have been reclassified to conform to the 2016 presentation.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* (ASU 2016-14) which changes the presentation of financial statements of not-for-profit entities with the intention to improve the information presented related to donor-imposed restrictions, liquidity, financial performance and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management has elected not to adopt this ASU early and does not anticipate that the adoption of this ASU will have a material impact on its financial statements.

Subsequent Events

Management has evaluated subsequent events through June 2, 2017, which is the date the financial statements were available to be issued.

2. UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2016 and 2015, unconditional promises to give consist of the following:

	2016	2015
Receivable due in less than one year	\$ 600,724	\$ 946,153
Less allowance for uncollectible pledges	25,000	25,000
Net receivable due in less than one year	575,724	921,153
Receivable due in one to five years	123,228	200,691
Total net unconditional promises to give	<u>\$ 698,952</u>	<u>\$ 1,121,844</u>

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

3. INVESTMENTS

As of December 31, 2016 and 2015, the Foundation's investments consisted of the following:

	2016	2015
Money market funds	\$ -	\$ 13,664
Mutual funds:		
Fixed income bond funds	4,435,051	1,783,236
Large growth funds	1,564,170	2,622,172
International equity fund	803,123	590,788
Small growth fund	421,108	291,340
Small blend fund	410,678	314,663
Total mutual funds	7,634,130	5,602,199
Bonds:		
U.S. Treasury and federal agencies	-	1,313,579
Corporate	-	196,241
Total bonds	-	1,509,820
Total	\$ 7,634,130	\$ 7,125,683

As of December 31, 2016 and 2015, \$3,161,952 and \$3,116,404, respectively, of the Foundation's investments were permanently restricted for investment in perpetuity.

For the years ended December 31, 2016 and 2015, investment return, net included in the statements of activities and changes in net assets consisted of the following:

	2016	2015
Investment return:		
Interest and dividends	\$ 179,111	\$ 360,691
Management fees	(39,195)	(38,254)
Net realized gains (losses)	(101,458)	168,036
Net unrealized gains (losses)	245,172	(784,126)
Total investment return, net	\$ 283,630	\$ (293,653)

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.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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.
- 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.

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.

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.

The methodologies used to determine fair value 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 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.

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Investments carried at fair value at December 31, 2016 and 2015 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
2016				
Investments - Mutual Funds	\$ 7,634,130	\$ -	\$ -	\$ 7,634,130
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	\$ 5,615,863	\$ 1,509,820	\$ -	\$ 7,125,683

5. NOTE PAYABLE – BANK

Note payable - bank consists of a revolving line-of-credit agreement with a bank. The note 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 3.75% at December 31, 2016. In no event will the interest rate be less than 3.25%. Borrowings on the note payable – bank amounted to \$121,248 and \$186,248 as of December 31, 2016 and 2015.

6. NET ASSETS

Temporarily Restricted Net Assets

As of December 31, 2016 and 2015, the Foundation has temporarily restricted net assets available for the following purposes:

	2016	2015
U.S. Coast Guard Academy support	\$ 636,319	\$ 638,871
District wide support	523,486	619,361
Assistance to families	2,201,877	2,124,701
Total	\$ 3,361,682	\$ 3,382,933

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Permanently Restricted Net Assets

As of December 31, 2016 and 2015, permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following:

	2016	2015
U.S. Coast Guard Academy support	\$ 808,701	\$ 808,546
District wide support	566,166	613,918
Assistance to families	1,675,225	1,604,580
Administrative and general purposes	112,162	112,610
Total	<u>\$ 3,162,254</u>	<u>\$ 3,139,654</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, 2016 and 2015 are as follows:

	2016	2015
U.S. Coast Guard Academy support	\$ 78,045	\$ 126,021
District wide support	474,000	520,002
Assistance to families	775,250	657,035
Total	<u>\$ 1,327,295</u>	<u>\$ 1,303,058</u>

7. GIFTS IN-KIND

For the years ended December 31, 2016 and 2015, gifts in-kind consisted of the following:

	2016	2015
Air time for public service announcements	\$ 10,245,586	\$ 17,185,450
Boats and related equipment	1,075,000	10,230
Consumer goods to be donated to the U.S. Coast Guard	199,814	66,784
Other	109,282	42,597
Total	<u>\$ 11,629,682</u>	<u>\$ 17,305,061</u>

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8. RENTAL INCOME

During the years ended December 31, 2016 and 2015, the Foundation leased a portion of its land to an unrelated third party. The lease was scheduled to expire on December 31, 2020 and contained renewal options for four successive fifteen year terms and one nine year renewal term. However, the land which was being leased was sold to the unrelated third party on March 31, 2017 at which time the lease was terminated. Also, see Note 15.

As of December 31, 2016 and 2015, property related to the Foundation's real estate leasing operation consisted of land with a cost and carrying value of approximately \$312,000.

Rental income associated with this lease was approximately \$100,000 for each of the years ended December 31, 2016 and 2015.

9. 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 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;

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- 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 no funds with deficiencies as of December 31, 2016. There were funds with deficiencies of approximately \$70 as of December 31, 2015.

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.

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 the 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

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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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 2,574,822	\$ 3,161,952	\$ 5,736,774
Board-designated	1,506,238	-	-	1,506,238
	<u>\$ 1,506,238</u>	<u>\$ 2,574,822</u>	<u>\$ 3,161,952</u>	<u>\$ 7,243,012</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 1,271,806	\$ 2,356,254	\$ 3,116,404	\$ 6,744,464
Investment return:				
Investment income, net of management fees	28,867	102,727	908	132,502
Net appreciation (realized and unrealized)	30,461	109,681	907	141,049
Total investment return	59,328	212,408	1,815	273,551
Contributions received and invested	500,000	514,835	43,733	1,058,568
Appropriation for expenditure	(324,896)	(508,675)	-	(833,571)
Endowment net assets - end of the year	<u>\$ 1,506,238</u>	<u>\$ 2,574,822</u>	<u>\$ 3,161,952</u>	<u>\$ 7,243,012</u>

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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>

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>

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10. SPECIAL EVENTS

The Foundation holds a number of special events in order to generate awareness and raise funds. For the years ended December 31, 2016 and 2015, special events consisted of the following:

	2016	2015
Gross receipts generated by special events	\$ 3,410,990	\$ 3,155,707
Less direct expenses incurred by:		
Program services	(729,518)	(750,653)
Development and fundraising	(663,151)	(703,034)
Special events income, net	<u>\$ 2,018,321</u>	<u>\$ 1,702,020</u>

For the years ended December 31, 2016 and 2015, the contribution portion of the gross receipts raised was \$2,976,140 and \$2,618,807, respectively.

11. 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, 2016 and 2015, the Foundation's contributions to the plan amounted to approximately \$46,000 and \$44,900, respectively.

12. COMMITMENTS

The Foundation provided approximately \$546,000 in scholarship awards to 127 children of Coast Guard enlisted members during 2016 and \$440,000 to 86 children in 2015. 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 scholarship awards 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 an operational mishap. The scholarship covers tuition and certain other educational costs. As of December 31, 2016, these scholarships have been awarded to 3 students; an additional 23 children will become eligible for scholarships between 2018 and 2030.

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As of December 31, 2016, the Foundation had committed to the following scholarships:

<u>Year</u>	<u>Amount</u>
2017	\$ 110,000
2018	80,000
2019	37,000
Total	<u>\$ 227,000</u>

13. ALLOCATION OF JOINT COSTS

During the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the approximate allocation of joint costs are as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 70,000	\$ 80,000
Support services:		
Administrative and general	6,000	6,000
Development and fundraising	48,000	66,000
Total approximate joint costs	<u>\$ 124,000</u>	<u>\$ 152,000</u>

14. RISK CONCENTRATIONS

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments and unconditional promises to give. Investments are also exposed to other risks such as market and interest rate risks.

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.

As of December 31, 2016, investments consisted of a diversified portfolio of mutual funds. Management believes the diversity of the portfolio minimizes the risk of loss.

As of December 31, 2016, the Foundation had unconditional promises to give from two donors representing approximately 26% and 17% of total unconditional promises to give. The Foundation

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believes such amounts are fully collectible. Further, the Foundation does not have a history of significant bad debt write-offs.

15. SUBSEQUENT EVENT

On March 31, 2017, the Foundation sold a portion of its land to an unrelated third party for \$1,525,000.

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