

THE COAST GUARD FOUNDATION, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 26, 2018

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016		2017	2016
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 1,257,224	\$ 863,311	Note payable - bank	\$ 118,248	\$ 121,248
Unconditional promises to give, net of allowance for uncollectible pledges	257,080	575,724	Accounts payable	131,386	64,972
Prepaid expenses and other current assets	220,108	165,427	Accrued liabilities	130,222	130,489
Total current assets	<u>1,734,412</u>	<u>1,604,462</u>	Deferred revenue	295,000	27,500
			Total current liabilities	<u>674,856</u>	<u>344,209</u>
INVESTMENTS	11,206,770	7,634,130	COMMITMENTS (NOTE 12)		
UNCONDITIONAL PROMISES TO GIVE, less current portion	140,515	123,228	NET ASSETS:		
PROPERTY AND EQUIPMENT - At cost:			Unrestricted:		
Land and land improvements	175,746	487,551	Board designated for endowment	3,602,400	1,506,238
Building	850,663	885,135	Investment in property and equipment	656,252	899,463
Furniture and equipment	271,031	232,064	Undesignated	455,966	987,437
Website	110,500	81,703	Total unrestricted	<u>4,714,618</u>	<u>3,393,138</u>
Total	<u>1,407,940</u>	<u>1,686,453</u>	Temporarily restricted	5,006,805	3,361,682
Less accumulated depreciation and amortization	751,688	786,990	Permanently restricted	3,341,670	3,162,254
Property and equipment, net	<u>656,252</u>	<u>899,463</u>	Total net assets	<u>13,063,093</u>	<u>9,917,074</u>
TOTAL	<u>\$ 13,737,949</u>	<u>\$ 10,261,283</u>	TOTAL	<u>\$ 13,737,949</u>	<u>\$ 10,261,283</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, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	\$ 2,221,347	\$ 2,441,308	\$ 171,455	\$ 4,834,110	\$ 2,120,945	\$ 894,309	\$ 20,785	\$ 3,036,039
Gifts in-kind	5,461,833	93,200		5,555,033	11,605,708	23,974		11,629,682
Special events revenue, net of costs of direct benefit to donors of \$425,475 in 2017 and \$434,850 in 2016	2,269,027			2,269,027	2,800,790	175,350		2,976,140
Investment return, net	337,629	785,482	7,961	1,131,072	69,404	212,411	1,815	283,630
Rental income	24,839			24,839	100,436			100,436
Boat sales	500			500	1,500			1,500
Gain on sale of land	1,213,195			1,213,195				-
Miscellaneous	39,731			39,731	49,751			49,751
Total	11,568,101	3,319,990	179,416	15,067,507	16,748,534	1,306,044	22,600	18,077,178
Net assets released from restrictions	1,674,867	(1,674,867)		-	1,327,295	(1,327,295)		-
Total support and revenue	13,242,968	1,645,123	179,416	15,067,507	18,075,829	(21,251)	22,600	18,077,178
EXPENSES:								
Program services:								
Academy support	590,989			590,989	1,509,284			1,509,284
District wide support	1,475,479			1,475,479	1,706,791			1,706,791
Assistance to families	1,132,035			1,132,035	801,267			801,267
Public awareness	6,380,703			6,380,703	11,216,186			11,216,186
Total program services	9,579,206	-	-	9,579,206	15,233,528	-	-	15,233,528
Supporting services:								
Administrative and general	824,191			824,191	853,197			853,197
Development and fundraising	1,518,091			1,518,091	1,537,539			1,537,539
Total supporting services	2,342,282	-	-	2,342,282	2,390,736	-	-	2,390,736
Total program and supporting services expenses	11,921,488	-	-	11,921,488	17,624,264	-	-	17,624,264
CHANGE IN NET ASSETS	1,321,480	1,645,123	179,416	3,146,019	451,565	(21,251)	22,600	452,914
NET ASSETS, BEGINNING 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
NET ASSETS, END OF THE YEAR	<u>\$ 4,714,618</u>	<u>\$ 5,006,805</u>	<u>\$ 3,341,670</u>	<u>\$ 13,063,093</u>	<u>\$ 3,393,138</u>	<u>\$ 3,361,682</u>	<u>\$ 3,162,254</u>	<u>\$ 9,917,074</u>

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	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	\$ 121,936	\$ 92,998	\$ 518,812		\$ 733,746			\$ 733,746
Academy waterfront program	108,300				108,300			108,300
Morale and welfare	37,719	503,065	501,375		1,042,159			1,042,159
Shipmate funds		398,119			398,119			398,119
Special projects		24,281			24,281			24,281
Athletics	36,500				36,500			36,500
Public outreach	154,100	25,000			179,100			179,100
Fallen heroes			7,588		7,588			7,588
Auxiliary support		169,950			169,950			169,950
Boat donation program	3,194				3,194			3,194
Public service announcements				\$ 5,297,357	5,297,357			5,297,357
Salaries and benefits	78,149	202,653	97,567	167,909	546,278	\$ 448,323	\$ 613,631	1,608,232
Event production costs	110			466,496	466,606		37,992	504,598
Direct mail solicitations				102,740	102,740	43,282	492,879	638,901
Donor cultivation					-		56,278	56,278
Video production				91,100	91,100		24,594	115,694
Promotional and advertising				105,182	105,182		13,411	118,593
Travel	115	37,242	263	11,369	48,989	32,944	58,511	140,444
Receptions and meetings		2,121			2,121	43,834		45,955
Printing and postage costs		292	344	32,526	33,162	8,710	32,386	74,258
Professional fees				66,689	66,689	92,875	53,016	212,580
Information technology				3,415	3,415	8,691	16,087	28,193
Occupancy	31,788	1,932	1,932	24,874	60,526	67,140	12,570	140,236
Telephone	480	10	40	350	880	5,733	6,374	12,987
Office expense	525	11		624	1,160	19,952	16,924	38,036
Miscellaneous	22	15,226	1,535	6,204	22,987	39,556	72,092	134,635
Total expenses before depreciation and amortization	572,938	1,472,900	1,129,456	6,376,835	9,552,129	811,040	1,506,745	11,869,914
Depreciation and amortization	18,051	2,579	2,579	3,868	27,077	13,151	11,346	51,574
Total	\$ 590,989	\$ 1,475,479	\$ 1,132,035	\$ 6,380,703	\$ 9,579,206	\$ 824,191	\$ 1,518,091	\$ 11,921,488

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				2,312	2,312	3,393	462	6,167
Occupancy	39,472	4,611	4,611	33,069	81,763	22,273	24,422	128,458
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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,146,019	\$ 452,914
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(874,711)	(143,714)
Gain on sale of land	(1,213,195)	-
Depreciation and amortization	51,574	44,857
Changes in operating assets and liabilities:		
Unconditional promises to give	301,357	422,892
Prepaid expenses and other current assets	(54,681)	24,921
Accounts payable	66,414	34,295
Accrued liabilities	(267)	(7,610)
Deferred revenue	267,500	5,000
Contributions restricted for long-term investment	(29,105)	(26,085)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,660,905</u>	<u>807,470</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of:		
Investments	(3,124,512)	(7,975,827)
Property and equipment	(120,168)	(10,924)
Proceeds from sales of:		
Investments	426,583	7,611,094
Land	1,525,000	-
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,293,097)</u>	<u>(375,657)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable - bank	(3,000)	(65,000)
Proceeds from contributions restricted for long-term investment	29,105	26,085
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>26,105</u>	<u>(38,915)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	393,913	392,898
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>863,311</u>	<u>470,413</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 1,257,224</u>	<u>\$ 863,311</u>
SUPPLEMENTAL CASH FLOW INFORMATION -		
Cash payments for interest	<u>\$ 5,100</u>	<u>\$ 6,000</u>

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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. 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, 2017 AND 2016

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, 2017 and 2016, 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.

Deferred revenue

Deferred revenue includes conditional promises to give and special event sponsorships collected in advance. Conditional promises to give will be recognized as revenue when the donor conditions are met. Special event sponsorships collected in advance will be recognized as revenue in the subsequent year, which is when such special events will take place. As of December 31, 2017, deferred revenue includes conditional promises to give of approximately \$243,000 and special event sponsorships collected in advance of approximately \$52,000. As of December 31, 2016, deferred revenue included special event sponsorships collected in advance of \$27,500.

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.

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

During the years ended December 31, 2017 and 2016, television public service announcement airtime, which was valued at \$5,297,358 and \$10,245,586, 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, 2017 and 2016. 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, 2017 and 2016, 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. Significant estimates made by management

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THE COAST GUARD FOUNDATION, INC.

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include the allowance for uncollectible pledges, depreciation and amortization of property and equipment which was based on the estimated useful lives of such assets, the valuation methodology used in determining the fair value of investments, the value of donated property and contributed services received. Actual results could differ from those estimates.

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 the Foundation's year ending December 31, 2018, 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.

Reclassification

Certain amounts reported in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Specifically, deferred revenue that was previously classified as accrued liabilities has been reclassified as deferred revenue.

Subsequent Events

Management has evaluated subsequent events through June 26, 2018, which is the date the financial statements were available to be issued.

2. UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2017 and 2016, unconditional promises to give consist of the following:

	2017	2016
Receivable due in less than one year	\$ 282,080	\$ 600,724
Less allowance for uncollectible pledges	25,000	25,000
Net receivable due in less than one year	257,080	575,724
Receivable due in one to five years	140,515	123,228
Total net unconditional promises to give	<u>\$ 397,595</u>	<u>\$ 698,952</u>

See independent auditors' report.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

3. INVESTMENTS

As of December 31, 2017 and 2016, the Foundation's investments consisted of the following:

	2017	2016
Money market funds	\$ 140,044	\$ -
Mutual funds:		
Fixed income bond funds	5,127,345	4,435,051
Large growth funds	3,259,090	1,564,170
International equity fund	1,579,029	803,123
Small growth fund	568,152	421,108
Small blend fund	533,110	410,678
Total mutual funds	<u>11,066,726</u>	<u>7,634,130</u>
 Total	 <u>\$ 11,206,770</u>	 <u>\$ 7,634,130</u>

As of December 31, 2017 and 2016, \$3,191,410 and \$3,161,952, respectively, of the Foundation's investments were permanently restricted for investment in perpetuity.

For the years ended December 31, 2017 and 2016, investment return, net included in the statements of activities and changes in net assets consisted of the following:

	2017	2016
Investment return:		
Interest and dividends	\$ 291,002	\$ 179,111
Management fees	(34,641)	(39,195)
Net realized losses	(629)	(101,458)
Net unrealized gains	875,340	245,172
Total investment return, net	<u>\$ 1,131,072</u>	<u>\$ 283,630</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

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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 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, 2017 and 2016 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
2017				
Investments -				
Money market funds	\$ 140,044			\$ 140,044
Mutual funds	11,066,726			11,066,726
Total	\$ 11,206,770	\$ -	\$ -	\$ 11,206,770
2016				
Investments -				
Mutual funds	\$ 7,634,130	\$ -	\$ -	\$ 7,634,130

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 4.50% at December 31, 2017. In no event will the interest rate be less than 3.25%. Borrowings on the note payable – bank amounted to \$118,248 and \$121,248 as of December 31, 2017 and 2016, respectively.

6. NET ASSETS

Temporarily Restricted Net Assets

As of December 31, 2017 and 2016, the Foundation has temporarily restricted net assets available for the following purposes:

	2017	2016
U.S. Coast Guard Academy support	\$ 803,607	\$ 636,319
District wide support	724,014	523,486
Assistance to families	3,118,342	2,201,877
Accelerated growth program	360,842	-
Total	\$ 5,006,805	\$ 3,361,682

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Permanently Restricted Net Assets

As of December 31, 2017 and 2016, permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following:

	2017	2016
U.S. Coast Guard Academy support	\$ 959,902	\$ 808,701
District wide support	571,166	566,166
Assistance to families	1,698,037	1,675,225
Administrative and general purposes	112,565	112,162
Total	<u>\$ 3,341,670</u>	<u>\$ 3,162,254</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, 2017 and 2016 are as follows:

	2017	2016
U.S. Coast Guard Academy support	\$ 287,783	\$ 78,045
District wide support	372,786	474,000
Assistance to families	927,006	775,250
Accelerated growth program	87,292	-
Total	<u>\$ 1,674,867</u>	<u>\$ 1,327,295</u>

7. GIFTS IN-KIND

For the years ended December 31, 2017 and 2016, gifts in-kind consisted of the following:

	2017	2016
Air time for public service announcements	\$ 5,297,357	\$ 10,245,586
Boats and related equipment	82,100	1,075,000
Consumer goods to be donated to the U.S. Coast Guard	71,160	199,814
Other	104,416	109,282
Total	<u>\$ 5,555,033</u>	<u>\$ 11,629,682</u>

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8. RENTAL INCOME

During the years ended December 31, 2017 and 2016, 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 for \$1,525,000 at which time the lease was terminated.

As of December 31, 2016, 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 \$25,000 and \$100,000 for each of the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016.

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 3,872,352	\$ 3,191,410	\$ 7,063,762
Board-designated	3,602,400	-	-	3,602,400
	<u>\$ 3,602,400</u>	<u>\$ 3,872,352</u>	<u>\$ 3,191,410</u>	<u>\$ 10,666,162</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 1,506,238	\$ 2,574,822	\$ 3,161,952	\$ 7,243,012
Investment return:				
Investment income, net of management fees	79,173	167,533	2,564	249,270
Net appreciation (realized and unrealized)	247,329	619,289	5,243	871,861
Total investment return	326,502	786,822	7,807	1,121,131
Contributions received and invested	1,819,660	850,758	21,651	2,692,069
Appropriation for expenditure	(50,000)	(340,050)	-	(390,050)
Endowment net assets - end of the year	<u>\$ 3,602,400</u>	<u>\$ 3,872,352</u>	<u>\$ 3,191,410</u>	<u>\$ 10,666,162</u>

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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	<u>59,328</u>	<u>212,408</u>	<u>1,815</u>	<u>273,551</u>
Contributions received and invested	500,000	514,835	43,733	1,058,568
Appropriation for expenditure	<u>(324,896)</u>	<u>(508,675)</u>	<u>-</u>	<u>(833,571)</u>
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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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, 2017 and 2016, special events consisted of the following:

	<u>2017</u>	<u>2016</u>
Gross receipts generated by special events	\$ 2,694,502	\$ 3,410,990
Less direct expenses incurred by:		
Program services	(751,826)	(729,518)
Development and fundraising	(558,945)	(663,151)
	<u>\$ 1,383,731</u>	<u>\$ 2,018,321</u>

For the years ended December 31, 2017 and 2016, the contribution portion of the gross receipts raised was \$2,269,027 and \$2,976,140, 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, 2017 and 2016, the Foundation's contributions to the plan amounted to approximately \$41,900 and \$46,000, respectively.

12. SCHOLARSHIPS AND RELATED COMMITMENTS

The Foundation provided approximately \$469,000 in scholarship awards to 179 children of Coast Guard enlisted members during 2017 and \$546,000 to 127 children in 2016. 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, 2017, 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, 2017, the Foundation had committed to the following scholarships:

<u>Year</u>	<u>Amount</u>
2018	\$ 82,500
2019	54,140
Total	<u>\$ 136,640</u>

13. ALLOCATION OF JOINT COSTS

During the years ended December 31, 2017 and 2016, 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, 2017 and 2016, the approximate allocation of joint costs are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 152,000	\$ 70,000
Support services:		
Administrative and general	7,000	6,000
Development and fundraising	32,000	48,000
Total approximate joint costs	<u>\$ 191,000</u>	<u>\$ 124,000</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. As of December 31, 2017, certain cash on deposit at a financial institution exceed the FDIC insurance limit. Management considers such circumstances to be normal business risks.

As of December 31, 2017, investments consisted of a diversified portfolio of mutual funds and money market funds. Management believes the diversity of the portfolio minimizes the risk of loss.

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As of December 31, 2017, the Foundation had unconditional promises to give from one donor representing approximately 35% of total unconditional promises to give. The Foundation believes such amounts are fully collectible. Further, the Foundation does not have a history of significant bad debt write-offs.

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