

**THE COAST GUARD
FOUNDATION, INC.**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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 statements of financial position of The Coast Guard Foundation, Inc. (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Coast Guard Foundation, Inc. as of December 31, 2010 and 2009, and the results of its activities and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of functional expenses for the year ended December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic 2010 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic 2010 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sansiveri, Kimball & Co., LLP

Westerly, Rhode Island
June 16, 2011

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,763,656	\$ 1,104,692
Unconditional promises to give, net of allowance for uncollectible pledges	144,092	299,735
Prepaid expenses and other current assets	158,347	128,236
Total current assets	2,066,095	1,532,663
INVESTMENTS	4,165,845	3,494,097
UNCONDITIONAL PROMISES TO GIVE, less current portion	288,698	164,000
LAND, BUILDING AND EQUIPMENT - NET	1,033,467	1,054,981
TOTAL	\$ 7,554,105	\$ 6,245,741
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 107,446	\$ 17,905
Accrued liabilities	319,279	64,876
Due to U.S. Coast Guard Auxiliary	5,364	11,179
Deferred income	36,500	74,300
Total current liabilities	468,589	168,260
COMMITMENTS		
NET ASSETS:		
Unrestricted	2,726,902	2,230,606
Temporarily restricted	1,808,464	1,343,199
Permanently restricted	2,550,150	2,503,676
Total net assets	7,085,516	6,077,481
TOTAL	\$ 7,554,105	\$ 6,245,741

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions	\$ 1,103,430	\$ 722,204	\$ 32,881	\$ 1,858,515	\$ 806,963	\$ 450,871	\$ 154,936	\$ 1,412,770
Gifts in-kind	836,735	47,765	10,000	894,500	854,237	22,528		876,765
Special events	3,087,837	94,561		3,182,398	2,920,280	102,475		3,022,755
Investment income, net	11,478	23,955	261	35,694	9,706	25,812	283	35,801
Net realized and unrealized gains (losses) on investments	103,987	299,992	3,332	407,311	1,049	(44,048)	(324)	(43,323)
Rental income	89,880			89,880	89,880			89,880
Boat sales	110,000			110,000	108,300			108,300
Miscellaneous	108,973			108,973	81,130			81,130
Total	5,452,320	1,188,477	46,474	6,687,271	4,871,545	557,638	154,895	5,584,078
Net assets released from restrictions	723,212	(723,212)		-	539,608	(539,608)		-
Total support and revenue	6,175,532	465,265	46,474	6,687,271	5,411,153	18,030	154,895	5,584,078
EXPENSES:								
Program services:								
Academy support	927,933			927,933	1,479,822			1,479,822
District wide support	1,158,633			1,158,633	845,514			845,514
Assistance to families	353,416			353,416	359,483			359,483
Public awareness	847,560			847,560	-			-
Total program services	3,287,542	-	-	3,287,542	2,684,819	-	-	2,684,819
Support services:								
Administrative and general	491,808			491,808	473,905			473,905
Development and fundraising	970,263			970,263	782,852			782,852
Special events	929,623			929,623	1,174,814			1,174,814
Total expenses	5,679,236	-	-	5,679,236	5,116,390	-	-	5,116,390
INCREASE (DECREASE) IN NET ASSETS	496,296	465,265	46,474	1,008,035	294,763	18,030	154,895	467,688
NET ASSETS, BEGINNING OF THE YEAR	2,230,606	1,343,199	2,503,676	6,077,481	1,935,843	1,325,169	2,348,781	5,609,793
NET ASSETS, END OF THE YEAR	\$ 2,726,902	\$ 1,808,464	\$ 2,550,150	\$ 7,085,516	\$ 2,230,606	\$ 1,343,199	\$ 2,503,676	\$ 6,077,481

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,008,035	\$ 467,688
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(407,311)	43,323
Loss on disposition of property and equipment	-	599
Donations of investment securities	(66,672)	(66,747)
Donations of property and equipment	(11,873)	-
Depreciation	49,562	53,709
Change in discount of unconditional promises to give	13,500	(3,000)
Change in allowance for uncollectible promises to give	(60,142)	80,142
Changes in operating assets and liabilities:		
Unconditional promises to give	77,587	(166,231)
Prepaid expenses and other current assets	(30,111)	(7,695)
Accounts payable	89,541	(35,594)
Accrued liabilities	254,403	(16,078)
Due to U.S. Coast Guard Auxiliary	(5,815)	11,179
Deferred income	(37,800)	32,050
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>872,904</u>	<u>393,345</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of:		
Investments	(2,629,689)	(2,214,568)
Equipment	(16,175)	(20,934)
Proceeds from sales of investments	2,431,924	2,223,682
NET CASH USED BY INVESTING ACTIVITIES	<u>(213,940)</u>	<u>(11,820)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	658,964	381,525
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>1,104,692</u>	<u>723,167</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 1,763,656</u>	<u>\$ 1,104,692</u>

See notes to financial statements.

THE COAST GUARD FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

The Coast Guard Foundation, Inc. (the Foundation) is a Massachusetts non-profit organization, located in Stonington, Connecticut. Its purpose is to serve as the principal non-profit organization for soliciting and receiving charitable contributions that will benefit the United States Coast Guard, Coast Guard personnel and their families, and the Coast Guard Academy; to serve as goodwill ambassadors in promoting the traditions and deeper understanding of the role of the United States Coast Guard in serving and protecting the United States of America and those who use its waterways; and to act in accordance with policies, procedures and guidance addressing these efforts as promulgated by the United States Coast Guard.

Basis of Financial Reporting

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

Basis of Presentation

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 maintained in three net asset classes as follows:

- Unrestricted net assets – funds which the Board of Directors retains full control in achieving any of their institutional purposes. These funds are not subject to donor imposed restrictions.
- Temporarily restricted net assets – funds restricted by outside sources which may only be utilized in accordance with purposes established by the donor of such funds. When a donor restriction expires, that is when a stipulated time restriction ends or 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 – funds permanently restricted by outside sources which require that 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 of such funds.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less that have not been restricted by the donor for long-term purposes.

Promises to Give and Pledges Receivable

Unconditional promises to give are recognized as revenue in the period received. 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. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Investments

The Foundation reports its investments in accordance with accounting policies generally accepted in the United States of America (U.S. GAAP), whereby investments in marketable securities and all investments in debt securities are valued at quoted fair values. If a quoted price is not available, fair value is estimated using quoted market prices for similar securities. Investment income is reported net of investment expense. Realized and unrealized gains and losses are included in the change in net assets.

Land, Building and Equipment

Land, building and equipment are stated at cost or, if donated, at the fair value at the date of the gift. Depreciation of building and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

Land improvements	20 years
Buildings and improvements	10 - 39 years
Equipment	2 - 10 years

Recognition of Donor Restrictions

Contributions and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Property

Donations of investment securities and other property items are recorded at fair value when received. Non-monetary items are recorded at realized value or at fair value when received, which is usually determined by an independent appraisal.

Donated 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 year ended December 31, 2010, television public service announcement airtime was valued at \$544,464 donated to the Foundation for its Public Awareness program. Public service announcements are valued based on the number of plays and the time period the announcement is aired at the television station's equivalent advertising rate charged for public service announcements by paying customers.

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.

Taxes on Income

The Internal Revenue Service issued a determination letter dated May 23, 1986, which stipulates that the Foundation is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. 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 accrual.

Estimates

The preparation of financial statements in conformity with 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.

Subsequent Events

Management has evaluated subsequent events through June 16, 2011, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts reported in the 2009 financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications affect the classification of certain expenses by functional expense category only and do not affect total expenses by program or the total change in net assets for the period.

2. UNCONDITIONAL PROMISES TO GIVE

As of December 31, 2010 and 2009, unconditional promises to give consist of the following:

	2010		2009
	Gross Value	Unamortized Discount	Total
Receivable in less than one year	\$ 193,592		\$ 193,592
Less allowance for uncollectible pledges	49,500		49,500
Net receivable due in less than one year	144,092	\$ -	144,092
Receivable in one to five years	308,198	(19,500)	288,698
Total unconditional promises to give	\$ 452,290	\$ (19,500)	\$ 432,790
			\$ 463,735

Unconditional promises to give as of December 31, 2010 and 2009 have been reported at the net present value of future estimated cash flows. The annual discount rate used to compute the present value for the years ended December 31, 2010 and 2009 was approximately 2.79% and 1.5%, respectively. This discount rate represents the average interest rate received on the Foundation's cash equivalents during each of the years then ended.

As of December 31, 2010 and 2009, approximately \$330,000 and \$210,000, respectively of outstanding unconditional promises to give were restricted for scholarships and academy programs.

3. INVESTMENTS

As of December 31, 2010 and 2009, the Foundation's investments consist of the following:

	Cost	Net Unrealized Gains (Losses)	Fair Value
2010			
Mutual funds:			
Domestic equity	\$ 815,580	\$ 132,218	\$ 947,798
International equity	560,171	224,583	784,754
Total mutual funds	<u>1,375,751</u>	<u>356,801</u>	<u>1,732,552</u>
Bonds:			
U.S. Government	102,380	8,956	111,336
Corporate	78,000	1,547	79,547
Total bonds	<u>180,380</u>	<u>10,503</u>	<u>190,883</u>
Common stock	320,471	202,946	523,417
Exchange traded funds	200,054	8,012	208,066
Closely held real estate	784,654	(347,197)	437,457
Limited partnerships	952,500	(98,711)	853,789
Certificates of deposit	219,937	(256)	219,681
Total	<u>\$ 4,033,747</u>	<u>\$ 132,098</u>	<u>\$ 4,165,845</u>
2009			
Mutual funds:			
Domestic equity	\$ 413,265	\$ 46,110	\$ 459,375
International equity	350,305	134,476	484,781
Total mutual funds	<u>763,570</u>	<u>180,586</u>	<u>944,156</u>
Bonds:			
U.S. Government	52,687	3,545	56,232
Corporate	51,819	1,564	53,383
International	26,798	(1,607)	25,191
Total bonds	<u>131,304</u>	<u>3,502</u>	<u>134,806</u>
Common stock	879,046	284,292	1,163,338
Closely held real estate	889,984	(447,914)	442,070
Limited partnerships	953,626	(143,899)	809,727
Total	<u>\$ 3,617,530</u>	<u>\$ (123,433)</u>	<u>\$ 3,494,097</u>

For the years ended December 31, 2010 and 2009, net realized and unrealized gains (losses) included in the accompanying statements of activities are as follows:

	2010	2009
Net realized gains (losses)	\$ 161,540	\$ (380,149)
Net unrealized gains (losses)	245,771	336,826
Total	<u>\$ 407,311</u>	<u>\$ (43,323)</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.

For each of the years ended December 31, 2010 and 2009, net investment income includes investment expenses of approximately \$31,300 and \$24,700, respectively.

4. LAND, BUILDING AND EQUIPMENT

At December 31, 2010 and 2009, the components of land, building and equipment are as follows:

	2010	2009
Land and land improvements	\$ 482,784	\$ 482,757
Building	871,283	862,754
Furniture and equipment	281,198	299,662
Total	<u>1,635,265</u>	<u>1,645,173</u>
Less accumulated depreciation	<u>601,798</u>	<u>590,192</u>
Land, building and equipment, net	<u>\$ 1,033,467</u>	<u>\$ 1,054,981</u>

5. 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.

Financial assets carried at fair value at December 31, 2010 and 2009 are as follows:

	Fair Value	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2010				
Investments:				
Mutual funds	\$ 1,732,552	\$ 1,732,552		
Bonds	190,883	190,883		
Common stock	523,417	523,417		
Exchange traded funds	208,066	208,066		
Closely held real estate	437,457			\$ 437,457
Limited partnerships	853,789			853,789
Certificates of deposit	219,681		\$ 219,681	
Total	\$ 4,165,845	\$ 2,654,918	\$ 219,681	\$ 1,291,246

2009	Fair Value	Quoted Prices in Active Markets (Level 1)	Other	
			Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments:				
Mutual funds	\$ 944,156	\$ 944,156		
Bonds	134,806	134,806		
Common stock	1,163,338	1,163,338		
Closely held real estate	442,070			\$ 442,070
Limited partnerships	809,727			809,727
Total	\$ 3,494,097	\$ 2,242,300	\$ -	\$ 1,251,797

The Level 2 certificates of deposit are valued based on the terms of the individual bank agreement. The Level 3 closely held real estate and limited partnerships are valued based on the information provided by the individual portfolio managers. There have been no changes in the methodologies used at December 31, 2010 and 2009.

These methodologies may produce fair value calculations that may not be 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.

Changes in the value of Level 3 assets which consist of investments in real estate and limited partnerships for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance, beginning of the year	\$ 1,251,797	\$ 1,712,553
Dividend income	26,356	23,176
Sale of ownership interest	(67,957)	-
Realized losses on sale of ownership interest	(54,257)	-
Unrealized gains (losses)	135,307	(483,932)
Balance, end of the year	\$ 1,291,246	\$ 1,251,797

6. NOTE PAYABLE – BANK

In February 2010, the Foundation entered into a revolving line-of-credit agreement with a bank with maximum available borrowings of \$250,000. Such note is payable on demand and is secured by unconditional promises to give and equipment owned by the

Foundation. Payments of interest only are due monthly and are calculated at 1% above the bank's prime rate which was 3.25% at December 31, 2010. In no event will the interest rate be less than 3.25%. There was no outstanding balance on the line of credit as of December 31, 2010.

7. **NET ASSETS**

Temporarily Restricted Net Assets

As of December 31, 2010 and 2009, the Foundation has temporarily restricted net assets available for the following purposes:

	<u>2010</u>	<u>2009</u>
Restricted to the Coast Guard Academy:		
Academic enrichment	\$ 293,367	\$ 226,377
Athletics and waterfront	265,096	(23,034)
Academy - other	(21,814)	(40,046)
Support to Coast Guard families	1,209,724	1,130,504
District support	<u>62,091</u>	<u>49,398</u>
Total	<u>\$ 1,808,464</u>	<u>\$ 1,343,199</u>

The negative balances above are the result of the allocation of unrealized losses attributed to the related endowment funds. Management considers such losses to be temporary.

Permanently Restricted Net Assets

As of December 31, 2010 and 2009, permanently restricted net assets consist of assets restricted to investment in perpetuity, the income from which is expendable to support the following:

	<u>2010</u>	<u>2009</u>
General Foundation purposes	\$ 148,021	\$ 148,021
District support	507,246	507,246
Support to Coast Guard families	897,031	850,643
Restricted to the Coast Guard Academy:		
Academic enrichment	345,431	345,431
Athletics and waterfront	441,888	441,808
Academy - other	<u>210,533</u>	<u>210,527</u>
Total	<u>\$ 2,550,150</u>	<u>\$ 2,503,676</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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Restricted to the Coast Guard Academy:		
Academic enrichment	\$ 101,767	\$ 76,619
Athletics and waterfront	202,329	91,900
Academy - other	398	
Support to Coast Guard families	348,603	336,979
District support	70,115	17,631
Coast Guard Auxiliary	-	15,278
Coast Guard Museum	-	1,201
Total	<u>\$ 723,212</u>	<u>\$ 539,608</u>

8. 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, 2010 and 2009, 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, 2010, excluding renewal options and inflationary adjustments, are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 84,000
2012	84,000
2013	84,000
2014	84,000
2015	84,000
Thereafter	336,000
Total	<u>\$ 756,000</u>

Rental income associated with this lease was approximately \$90,000 for each of the years ended December 31, 2010 and 2009.

9. ENDOWMENT

The Foundation's endowment consists of approximately 35 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds are invested in two investment vehicles whose earnings and losses are combined and allocated across individual endowment funds.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit 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 order to protect the historical value of the dollar. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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
- The investment policies of the Foundation

Return Objective 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 6-8%, net of inflation and expenses, compounded annually. Total returns include income plus realized and unrealized gains and losses on endowment fund assets.

Total risk exposure and risk-adjusted returns will be regularly evaluated from inception and compared with a universe of similar funds for the endowment fund as well as for each investment manager versus other managers of similar style. Total portfolio risk exposure as measured by the standard deviation of return should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to be consistent with comparable managers.

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 yields (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

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 3 percent 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 composition by type of fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 760,084	\$ 2,529,294	\$ 3,289,378
Board-designated	867,965	-	-	867,965
	<u>\$ 867,965</u>	<u>\$ 760,084</u>	<u>\$ 2,529,294</u>	<u>\$ 4,157,343</u>

Permanently restricted net assets include approximately \$394,000 of cumulative investment return on donor-restricted endowment funds that the Foundation has determined must be retained permanently to maintain the purchasing power of those funds prior to the adoption of UPMIFA.

Changes in endowment net assets for the year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 684,033	\$ 589,454	\$ 2,443,670	\$ 3,717,157
Investment return:				
Investment income, net of management fees	7,953	23,748	261	31,962
Net appreciation (depreciation) (realized and unrealized)	103,889	300,009	3,332	407,230
Total investment return	111,842	323,757	3,593	439,192
Contributions	57,853	112,456	82,031	252,340
Appropriation for expenditure	-	(257,908)	-	(257,908)
Other changes - transfers to cover expenditures	14,237	(7,675)	-	6,562
Endowment net assets - end of the year	\$ 867,965	\$ 760,084	\$ 2,529,294	\$ 4,157,343

Endowment net asset composition by type of fund as of December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 589,454	\$ 2,443,670	\$ 3,033,124
Board-designated	684,033	-	-	684,033
	\$ 684,033	\$ 589,454	\$ 2,443,670	\$ 3,717,157

Permanently restricted net assets include approximately \$394,000 of cumulative investment return on donor-restricted endowment funds that the Foundation has determined must be retained permanently to maintain the purchasing power of those funds prior to the adoption of UPMIFA.

Changes in endowment net assets for the year ended December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of the year	\$ 758,898	\$ 667,434	\$ 2,348,781	\$ 3,775,113
Investment return:				
Investment income, net of management fees	8,905	25,567	283	34,755
Net appreciation (depreciation) (realized and unrealized)	2,202	(43,652)	(330)	(41,780)
Total investment return	11,107	(18,085)	(47)	(7,025)
Contributions	-	130,354	94,936	225,290
Appropriation for expenditure	(50,000)	(202,734)	-	(252,734)
Other changes - transfers to cover expenditures	(35,972)	12,485	-	(23,487)
Endowment net assets - end of the year	\$ 684,033	\$ 589,454	\$ 2,443,670	\$ 3,717,157

10. SPECIAL EVENTS

Special events for the year ended December 31, 2010 consisted of the following:

	Gross Receipts	Total Expenses	Attributed to District Support	Net
Washington DC dinner	\$ 910,200	\$ 327,563	\$ 95,775	\$ 678,412
New York dinner	654,800	235,160	95,386	515,026
New Orleans dinner	421,250	181,887	47,476	286,839
St. Petersburg dinner	346,577	177,475	67,868	236,970
Alaska dinner	268,000	82,321	27,491	213,170
Hawaii dinner	230,306	115,059	21,600	136,847
Pacific Area dinner	135,250	117,704	43,479	61,025
Washington DC golf tournament	118,610	37,897	-	80,713
11th District golf tournament	36,695	24,735	-	11,960
1st District golf tournament	19,665	17,780	-	1,885
Connecticut golf tournament	9,140	10,960	-	(1,820)
Other events	31,905	157	-	31,748
Total	\$ 3,182,398	\$ 1,328,698	\$ 399,075	\$ 2,252,775

Special events for the year ended December 31, 2009 consisted of the following:

	Gross Receipts	Total Expenses	Attributed to District Support	Net
Washington DC dinner	\$ 951,620	\$ 354,261	\$ 77,627	\$ 674,986
New York dinner	668,585	213,445	80,377	535,517
New Orleans dinner	315,520	165,996	21,502	171,026
Pacific Northwest dinner	311,969	162,573	40,068	189,464
Hawaii dinner	244,486	136,542	12,640	120,584
St. Petersburg dinner	187,850	141,428	40,186	86,608
San Francisco dinner	189,600	258,816	48,266	(20,950)
Washington DC golf tournament	106,495	38,203	-	68,292
11th District golf tournament	41,630	23,759	-	17,871
Other events	5,000	457	-	4,543
Total	<u>\$ 3,022,755</u>	<u>\$ 1,495,480</u>	<u>\$ 320,666</u>	<u>\$ 1,847,941</u>

11. EMPLOYEE BENEFIT PLAN

The Foundation has a defined contribution retirement plan for all eligible 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, 2010 and 2009, the Foundation's contributions to the plan amounted to approximately \$31,200 and \$32,500, respectively.

12. COMMITMENTS

Scholarships

The Foundation annually awards four year scholarships totaling either \$5,000 or \$2,500 per year. Recipients are dependents of Coast Guard enlisted personnel. At December 31, 2010, the Foundation had committed to the following ongoing scholarships:

<u>Year</u>	<u>Amount</u>
2011	\$ 168,000
2012	108,000
2013	48,000
2014	8,000
Total	<u>\$ 332,000</u>

Event Contracts

During 2010, the Foundation signed various contracts relating to events to be held in 2011. As of December 31, 2010, the approximate future obligations under these contracts totaled \$439,000.

Academy Waterfront Program

During 2009, the Foundation entered into a joint agreement with the Coast Guard Alumni Association to provide for the construction of four L-44 sailing vessels for the Academy waterfront program. As of December 31, 2010, the approximate future obligation under this agreement was approximately \$432,000.

13. ALLOCATION OF JOINT COSTS

During the years ended December 31, 2010 and 2009, the Foundation incurred joint costs for activities that included fundraising appeals. Such costs represent costs incurred for certain publications, special events and overhead. For the years ended December 31, 2010 and 2009, the approximate allocation of joint costs are as follows:

	2010	2009
Fundraising and special events	\$ 231,000	\$ 433,000
Program services	340,000	248,000
Management and general	20,000	79,000
Total approximate joint costs	<u>\$ 591,000</u>	<u>\$ 760,000</u>

14. CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments, which potentially subject the Foundation to concentrations of credit and investment risk, consist of cash equivalents and investments.

From time to time, the Foundation maintains cash deposits in excess of FDIC insurance limits. Management believes these are normal business risks. Investments include a diversified portfolio consisting of money market funds, certificates of deposit, government bonds, corporate bonds, mutual funds, and equity securities in various industries, which the Foundation's management believes minimizes the market risk associated with such investments.

THE COAST GUARD FOUNDATION, INC.

 COMPILED SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR 2009

	2010								2009	
	Program Services				Support Services				Total	Total
	Academy Support	District Wide Support	Assistance to Families	Public Awareness	Total Program	Administrative and General	Development and Fundraising	Special Events		
Grants to the Coast Guard:										
Educational support	\$ 151,717	\$ 320,000	\$ 301,081		\$ 772,798				\$ 772,798	\$ 582,545
Morale, welfare & event attendance	5,115	707,988			713,103				713,103	565,089
Academy waterfront program	326,869				326,869				326,869	228,055
Public outreach	31,500	50,000			81,500				81,500	82,500
Family relief			24,155		24,155				24,155	62,364
Leadership development					-				-	17,635
Athletics	65,000				65,000				65,000	80,000
Boats donated to the Coast Guard	253,807	4,000			257,807				257,807	832,350
Special capital projects		19,991			19,991				19,991	-
Public service announcements				\$ 544,464	544,464				544,464	-
Salaries and benefits	44,377	38,191	24,935	31,281	138,784	\$ 269,501	\$ 423,228	\$ 116,524	948,037	841,306
Event production costs				10,925	10,925			670,418	681,343	932,180
Direct mail solicitations					-		233,924		233,924	163,325
Donor cultivation					-		51,696		51,696	42,039
Video production				482	482		481	52,131	53,094	49,823
Promotional and advertising				185,812	185,812		25,584		211,396	57,567
Travel		11,259		3,802	15,061	16,910	86,094	36,979	155,044	104,801
Meals and entertainment		814		4,576	5,390	35,249			40,639	28,768
Printing and postage costs		162		22,866	23,028	6,708	13,429	53,571	96,736	78,863
Professional fees				36,001	36,001	56,584	34,207		126,792	124,102
Website expense	240	240	240	5,721	6,441	8,763	12,021		27,225	31,599
Occupancy	18,144	725	725	410	20,004	8,207	6,564		34,775	34,048
Telephone	1,321	346	625	294	2,586	5,057	7,700		15,343	13,538
Property and liability insurance	4,085	100	100	100	4,385	7,636	1,594		13,615	13,360
Supplies	6,001	26	26	680	6,733	18,291	13,893		38,917	31,624
Equipment maintenance and repair	3,474	146	146	146	3,912	5,255	15,667		24,834	21,949
Training and education					-	1,001			1,001	573
Depreciation	15,656	3,043	1,383		20,082	12,738	16,742		49,562	53,709
Miscellaneous	627	1,602			2,229	39,908	27,439		69,576	42,678
Total	\$ 927,933	\$ 1,158,633	\$ 353,416	\$ 847,560	\$ 3,287,542	\$ 491,808	\$ 970,263	\$ 929,623	\$ 5,679,236	\$ 5,116,390