

**UNITED STATES COAST GUARD ACADEMY
ALUMNI ASSOCIATION**

FINANCIAL STATEMENTS

December 31, 2019

WITH

INDEPENDENT AUDITORS' REPORT

**UNITED STATES COAST GUARD ACADEMY
ALUMNI ASSOCIATION**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Coast Guard Academy Alumni Association
New London, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of **UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 United States Coast Guard Academy Alumni Association as of December 31, 2019, and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note B to the financial statements, during the year ended December 31, 2019, the United States Coast Guard Academy Alumni Association adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the United States Coast Guard Academy Alumni Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Feeney, Foster & Cavanagh CPAs, LLC

Lincoln, Rhode Island
March 27, 2020

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

STATEMENT OF FINANCIAL POSITION

**December 31, 2019
(With Comparative Totals for December 31, 2018)**

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>2019 Total</i>	<i>2018 Total</i>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 801,815	\$ 1,734	\$ 803,549	\$ 1,104,895
Pledges receivable, current portion (Note I)	5,974	527,730	533,704	1,915,592
Accounts receivable	4,414	0	4,414	4,828
Prepaid expenses	<u>42,865</u>	<u>0</u>	<u>42,865</u>	<u>17,604</u>
Total current assets	<u>855,068</u>	<u>529,464</u>	<u>1,384,532</u>	<u>3,042,919</u>
Property and equipment:				
Buildings and improvements	4,428,331	376,510	4,804,841	4,780,841
Furniture and equipment	<u>425,211</u>	<u>32,528</u>	<u>457,739</u>	<u>451,762</u>
	4,853,542	409,038	5,262,580	5,232,603
Less, Accumulated depreciation	<u>(2,069,106)</u>	<u>0</u>	<u>(2,069,106)</u>	<u>(1,932,399)</u>
Net property and equipment	<u>2,784,436</u>	<u>409,038</u>	<u>3,193,474</u>	<u>3,300,204</u>
Other assets:				
Pledges receivable, net of current portion (Note I)	18,971	3,389,750	3,408,721	2,036,562
Other assets	38,478	0	38,478	38,478
Due from (to) other funds	(1,503,656)	1,503,656	0	0
Investments (non-endowment) (Note G)	525,000	8,365,288	8,890,288	7,775,356
Investments (fiduciary funds) (Note G)	0	239,863	239,863	199,810
Endowment (Notes G & S):				
Cash and cash equivalents	0	(13,888)	(13,888)	6,886
Marketable securities	<u>1,631,672</u>	<u>27,094,332</u>	<u>28,726,004</u>	<u>22,748,713</u>
Total other assets	<u>710,465</u>	<u>40,579,001</u>	<u>41,289,466</u>	<u>32,805,805</u>
Total assets	<u>\$ 4,349,969</u>	<u>\$ 41,517,503</u>	<u>\$ 45,867,472</u>	<u>\$ 39,148,928</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 34,124	\$ 102,542	\$ 136,666	\$ 73,006
Accrued expenses	<u>98,174</u>	<u>0</u>	<u>98,174</u>	<u>120,441</u>
Total current liabilities	132,298	102,542	234,840	193,447
Long-term liabilities:				
Deferred lifetime membership dues	283,837	0	283,837	239,211
Fiduciary liability	0	239,863	239,863	199,810
Annuities payable (Note K)	<u>50,531</u>	<u>28,406</u>	<u>78,937</u>	<u>77,553</u>
Total liabilities	<u>466,666</u>	<u>370,811</u>	<u>837,477</u>	<u>710,021</u>
Net assets:				
Without donor restriction:				
Without donor restriction	1,726,630	0	1,726,630	1,993,722
Board designated (Note Q)	<u>2,156,673</u>	<u>0</u>	<u>2,156,673</u>	<u>2,004,723</u>
Total without donor restrictions	3,883,303	0	3,883,303	3,998,445
With donor restrictions (Note R)	<u>0</u>	<u>41,146,692</u>	<u>41,146,692</u>	<u>34,440,462</u>
Total net assets	<u>3,883,303</u>	<u>41,146,692</u>	<u>45,029,995</u>	<u>38,438,907</u>
Total liabilities and net assets	<u>\$ 4,349,969</u>	<u>\$ 41,517,503</u>	<u>\$ 45,867,472</u>	<u>\$ 39,148,928</u>

See Notes to Financial Statements.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

**Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>2019 Total</i></u>	<u><i>2018 Total</i></u>
Revenues:				
Membership dues	\$ 583,558	\$ 0	\$ 583,558	\$ 571,595
Contributions	422,410	7,679,375	8,101,785	4,272,953
Special events	12,236	0	12,236	9,203
Advertising sold	222,209	0	222,209	204,090
SACC receipts	76,318	0	76,318	82,234
Affinity income	0	0	0	10,000
Homecoming receipts	88,736	0	88,736	54,318
Merchandise sales	7,077	0	7,077	8,153
Rental income	8,519	0	8,519	10,608
Prizes and awards	8,790	0	8,790	9,200
Miscellaneous income	463	0	463	201
Noncash gift to Academy & Corps. of Cadets - use of facilities	239,850	0	239,850	223,950
Operational fee	506,139	(506,139)	0	0
Alumni Center endowment transfer	137,927	(137,927)	0	0
Net assets released from restrictions	<u>5,351,022</u>	<u>(5,351,022)</u>	<u>0</u>	<u>0</u>
 Total revenues	 <u>7,665,254</u>	 <u>1,684,287</u>	 <u>9,349,541</u>	 <u>5,456,505</u>
Expenses:				
Academy support	5,236,758	0	5,236,758	3,437,092
Member services	1,261,314	0	1,261,314	1,240,098
General and administrative	325,890	0	325,890	354,336
Development	<u>1,245,444</u>	<u>0</u>	<u>1,245,444</u>	<u>1,081,265</u>
 Total expenses	 <u>8,069,406</u>	 <u>0</u>	 <u>8,069,406</u>	 <u>6,112,791</u>
 Changes in net assets from operations	 <u>(404,152)</u>	 <u>1,684,287</u>	 <u>1,280,135</u>	 <u>(656,286)</u>
Other income (expense):				
Interest and dividends	36,473	772,635	809,108	836,364
Realized and unrealized gains (losses)	<u>252,537</u>	<u>4,249,308</u>	<u>4,501,845</u>	<u>(2,271,757)</u>
 Total other income (expense)	 <u>289,010</u>	 <u>5,021,943</u>	 <u>5,310,953</u>	 <u>(1,435,393)</u>
 Increase (decrease) in net assets	 <u>(115,142)</u>	 <u>6,706,230</u>	 <u>6,591,088</u>	 <u>(2,091,679)</u>
Net assets, beginning of year	<u>3,998,445</u>	<u>34,440,462</u>	<u>38,438,907</u>	<u>40,530,586</u>
 Net assets, end of year	 <u>\$ 3,883,303</u>	 <u>\$ 41,146,692</u>	 <u>\$ 45,029,995</u>	 <u>\$ 38,438,907</u>

See Notes to Financial Statements.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

**Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	<u>Academy Support</u>	<u>Member Services</u>	<u>General and Administrative</u>	<u>Development</u>	<u>2019 Total</u>	<u>2018 Total</u>
Salaries and wages	\$ 0	\$ 493,371	\$ 136,465	\$ 419,891	\$ 1,049,727	\$ 954,992
Payroll taxes	0	41,613	11,510	35,415	88,538	79,325
Employee benefits	0	88,274	24,416	75,126	187,816	162,265
Fundraising and consulting	45	0	0	350,889	350,934	295,921
Alumni bulletin and directory	0	134,262	0	0	134,262	133,588
Office supplies, postage and miscellaneous	2,082	149,740	41,418	127,439	320,679	400,389
Data processing	0	27,067	7,487	23,036	57,590	22,295
Depreciation	0	64,252	17,772	54,683	136,707	132,146
Travel, meetings and conferences	0	12,174	3,367	10,360	25,901	35,643
Utilities	0	14,100	3,900	12,000	30,000	30,000
Estimated uncollectible promises to give	61,745	0	0	82,635	144,380	110,285
Alumni support - chapter and jobs/network	8,380	55,524	0	0	63,904	64,025
Insurance	0	16,155	4,468	13,748	34,371	28,593
Repairs and maintenance	0	33,252	9,198	28,300	70,750	57,381
Prizes, awards and gratuities	0	11,729	0	0	11,729	11,009
Professional fees	0	0	61,340	1,209	62,549	103,877
Equipment rental	0	6,260	1,731	5,327	13,318	13,713
Telephone	0	5,131	1,419	4,366	10,916	15,723
Parents association expenses	0	26,135	0	0	26,135	50,867
Unrestricted gifts	160,807	0	0	0	160,807	121,723
Restricted gifts	4,662,596	0	0	0	4,662,596	2,993,071
Noncash gift to Academy & Corps. of Cadets - use of facilities	239,850	0	0	0	239,850	223,950
Gifts to US Coast Guard	101,253	0	0	0	101,253	0
Homecoming	0	81,077	0	0	81,077	68,930
Meals and entertainment	0	1,198	332	1,020	2,550	2,065
Unrelated business income tax	0	0	1,067	0	1,067	1,015
Total functional expenses	\$ 5,236,758	\$ 1,261,314	\$ 325,890	\$ 1,245,444	\$ 8,069,406	\$ 6,112,791

See Notes to Financial Statements.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

STATEMENT OF CASH FLOWS

**Years Ended December 31, 2019
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ 6,591,088	\$ (2,091,679)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	136,707	132,146
Realized and unrealized (gains) losses	(4,501,845)	2,271,757
Change in net present value and write-off of annuities	15,172	5,402
Cash contributions restricted for long-term purposes	(2,075,416)	(473,496)
Donated property	0	(70,952)
Loss on bad debts	86,470	11,218
Change in discount and estimated uncollectible promises to give	57,910	99,067
Changes in operating assets and liabilities:		
Pledges receivable	(134,651)	299,053
Accounts receivable	414	(4,000)
Prepaid expenses	(25,261)	(17,604)
Other assets	0	59,335
Accounts payable	63,660	52,009
Accrued expenses	(22,267)	26,297
Deferred lifetime membership	44,626	28,182
	<hr/>	<hr/>
Net cash provided by operating activities	236,607	326,735
Cash flows from investing activities:		
Cash to purchase furniture and equipment	(29,977)	(12,742)
Annuity payments paid	(13,788)	(13,788)
Proceeds from sales of investments	7,109,158	8,953,958
Cash to purchase investments	(9,678,762)	(9,765,869)
	<hr/>	<hr/>
Net cash used in investing activities	(2,613,369)	(838,441)
Cash flows from financing activities:		
Cash contributions restricted for long-term purposes	2,075,416	473,496
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Net cash provided by financing activities	2,075,416	473,496
Net decrease in cash and cash equivalents	(301,346)	(38,210)
Cash and cash equivalents, beginning of year	1,104,895	1,143,105
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 803,549	\$ 1,104,895
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See Notes to Financial Statements.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note A – Organization:

The United States Coast Guard Academy Alumni Association (the “Association”) is a private, non-profit organization comprised of alumni, parents and friends of the United States Coast Guard Academy (“Academy”) located in New London, Connecticut. The Association’s mission is to provide services to and promote fellowship among its worldwide members. The Association raises funds to provide “margin of excellence” support to the Corps of Cadets, to preserve the traditions and to enhance the reputation of the Academy.

Note B – Recent accounting developments:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The FASB issued subsequent amendments to improve and clarify the implementation guidance of Topic 606. This standard, as amended by ASU 2015-14, *Revenue from Contracts with Customers-Deferral of Effective Date*, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018 and interim and annual periods beginning after December 15, 2019. ASU 2014-09 required additional disclosures which are included in Notes C, E and F. The new guidance did not have a material effect on the Association’s statements of financial position and statements of activities, functional expenses, changes in net assets and cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for financial statements of nonpublic companies for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 is effective for the Association’s year ending December 31, 2021 and is not expected to have a material impact on the Association’s financial statements.

In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. ASU 2016-15 did not have a material effect on the Association’s statements of financial position and statements of activities, functional expenses, changes in net assets and cash flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash and require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. ASU 2016-18 did not have a material effect on the Association’s statements of financial position and statements of activities, functional expenses, changes in net assets and cash flows.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note B – Recent accounting developments (continued):

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Association will be evaluating the impact this standard will have on the Association's financial statements.

In June, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This amendment clarifies and improves current not-for-profit organization guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The amendment is effective for the Association's year ending December 31, 2019. ASU 2018-18 did not have a material effect on the Association's statements of financial position and statements of activities, functional expenses, changes in net assets and cash flows.

Other recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the Association's present or future financial statements.

Note C – Summary of significant accounting policies:

Basis of presentation - The Association prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

For financial reporting purposes the Association follows the reporting requirements of U.S. GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of net assets into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and types of transactions affecting each category are as follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of membership fees and related services, advertising fees and related costs, and investment returns on funds donated without restricted purpose. In addition, the category includes certain types of philanthropic support consisting of gifts without restrictions, including those designated by the Board of Directors to function as endowments, and restricted gifts whose donor-imposed restrictions were met during the year.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note C – Summary of significant accounting policies (continued):

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Association or passage of time. Items that affect this category are gifts for which donor-imposed restrictions, consisting of use for specific classes or for specific academy programs such as athletic funds, educational funds, library funds, etc., that have not been met in the year of receipt, endowment and annuity gifts, and investment returns on endowment funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions. During the years ended December 31, 2019 and 2018, \$5,351,022 and \$3,608,506, respectively, were released from restrictions for the various specific restricted purposes.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Association, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for operations. Other permanently restricted items in this category included annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted. The Association receives a management fee of 1% of the trailing thirteen-month average of the permanently restricted funds.

Tax-exempt status - The Association is exempt from federal and state income taxes as a public charity under Internal Revenue Code 501(c)(3). The Association also qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Association has no unrecognized tax benefits at December 31, 2019 and 2018. The Association files federal and state of Connecticut exempt organization returns, which represent the major tax jurisdictions of the Association. The Association's income tax returns are subject to examination by the appropriate taxing jurisdictions. The Association's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

If necessary, the Association would recognize interest and penalties associated with tax matters as part of general and administrative expenses in the statement of activities and changes in net assets and include accrued interest and penalties in accrued expenses in the statement of financial position. The Association did not recognize any interest or penalties associated with tax matters for the years ended December 31, 2019 and 2018.

Concentrations of credit risk - Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents. The Association maintains cash and cash equivalents with high-credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation. At times, such amounts may exceed insured limits.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note C – Summary of significant accounting policies (continued):

The Association holds various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities may occur in the near term and that such changes could materially affect the fair values of the Association's investment securities in the near future.

Prior year summarized information - The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Contributions and promises to give - The Association follows a policy to recognize unconditional promises to give at the time the promises are received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rate on those amounts at December 31, 2019 and 2018, was 2.88% and 3.65%, respectively. Amortization of the discounts is included in contribution revenue. Management provides for probable uncollectible amounts through an allowance for uncollectible accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

Conditional promises to give are not included as support until the conditions are substantially met.

Contributed marketable securities, property, equipment and other non-cash donations are recorded as contributions at their estimated fair values on the date of donation.

The Association records the estimated fair value of any significant volunteer services that require a specialized skill as both revenues and expenses in the period in which the donation is received. The fair value of the volunteer services is based upon an hourly rate determined by an estimated standard market rate multiplied by the number of volunteer hours. The contributed services recorded in the accompanying statement of activities and changes in net assets were \$0 and \$17,500, during the years ended December 31, 2019 and 2018, respectively.

Revenue recognition significant accounting policies under ASC 606 from members:

Membership dues revenue - Membership dues are recognized ratably over the period of membership. Membership dues are non-refundable. The Association has various membership classifications with various terms ranging from annual to lifetime membership. Any unearned amounts for membership payments received are included in deferred revenue.

Advertising revenue - Advertising revenue represents fees for advertisements by 3rd parties in the bi-monthly bulletin. Revenue is recognized at the point of time the respective bulletin issued.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note C – Summary of significant accounting policies (continued):

Homecoming receipts - Homecoming receipts consist of ticket sales for the Academy's homecoming events. Revenue is recognized at the point in time of the sale as no subsequent performance obligation exists.

Sale of merchandise - Sales of merchandise includes one-time sales of various United States Coast Guard Academy merchandise. Revenues is recognized at the point in time of the sale as no subsequent performance obligation exists.

SACC receipts - SACC receipts represent revenue from the four joint Service Academy Career Conferences held throughout the year. Each of the Service Academies receive a percentage of the revenues collected for the events and revenue is recognized at the point in time the funds are received.

Significant Judgments - The Association determines the transaction prices and dues based on the standard charges for goods and services provided for the various transactions and membership classifications.

Property and equipment - The Association capitalizes all expenditures for property and equipment in excess of \$2,500 and having a useful life of greater than five years. Purchased property and equipment are carried at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated lives for financial reporting purposes are as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 10 years

Depreciation expense for the years ended December 31, 2019 and 2018, was \$136,707 and \$132,146, respectively. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the change in net assets for the period.

Impairment of long-lived assets - The Association recognizes an impairment loss when the carrying amount of a long-lived asset exceeds its fair value. In the event that facts and circumstances indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. The evaluation process consists of comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down is required. If the review indicates that the asset will not be recoverable, the carrying value of the asset would be reduced to its estimated realizable value. There was no impairment loss recognized for the years ended December 31, 2019 and 2018.

Cash and cash equivalents - The Association considers all highly liquid, short-term investments with original maturities of three months or less, when purchased, to be cash equivalents.

Functional expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Natural expenses attributable to more than one functional expense category are allocated using cost allocation based on time and effort.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note C – Summary of significant accounting policies (continued):

Investments - Investments in marketable securities, endowment funds and the fiduciary funds are reported at their fair values in the statement of financial position. The Association has adopted Accounting Standards Update 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*. As a result, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

Realized and unrealized gains and losses on investments are determined on the basis of specific identification and are reported in the statement of activities and changes in net assets. Investment income (interest and dividends) is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accompanying statement of activities and changes in net assets, in the periods in which they occur.

Fiduciary funds - These funds are held by the Association on behalf of the graduation classes of the United States Coast Guard Academy. Each class makes a determination on how the funds will be used.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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.

Changes in net assets from operations - The Association's changes in net assets from operations include all operating revenues and expenses that are an integral part of its program and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other funds to support current operating activities. The measure of operations excludes investment income consisting of interest and dividends and realized and unrealized gain or losses.

Subsequent events - Management has evaluated subsequent events through March 27, 2020, which is the date the financial statements were available to be issued.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note D – Financial assets and liquidity resources:

As of December 31 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	<i>December 31, 2019</i>	<i>December 31, 2018</i>
	<u> </u>	<u> </u>
Financial assets:		
Cash and cash equivalents	\$ 803,549	\$ 1,104,895
Pledge payments available for operations	5,974	9,397
Accounts receivable	4,414	4,828
Investments without donor restrictions	1,631,672	1,479,723
Endowment spending rate distributions and appropriations	123,485	122,835
Board designations:		
Operating reserve	375,000	375,000
Reserve for annuities	150,000	150,000
Total financial assets available within one year	<u>3,094,094</u>	<u>3,246,678</u>
 Liquidity resources:		
Margin line of credit	<u>5,000,000</u>	<u>5,000,000</u>
 Total financial assets available within one year and liquidity resources available	<u>\$ 8,094,094</u>	<u>\$ 8,246,678</u>

The Association’s endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor restricted endowments is restricted for specific purposes, with the exceptions of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board designated endowment is subject to an annual spending rate of 4%. Although the Board does not intend to spend from this board-designated endowment, these amounts could be made available if necessary.

The Association’s cash flows have some variations throughout the year attributable to timing of membership fee collections, timing of purchases of investments and a concentration of contributions received at year end. To manage liquidity, the Association maintains a margin line of credit on its investment account. As of December 31, 2019 and 2018, the amount outstanding on the line of credit was \$0.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note E – Receivables and contract liabilities:

Receivables and contract liabilities from contracts with customers are summarized as follows:

	<u>Receivables</u>		<u>Contract Liabilities</u>
	<u>Membership Dues</u>	<u>Advertising</u>	<u>Deferred Membership Dues</u>
December 31, 2018	\$ 0	\$ 4,828	\$ 239,211
December 31, 2019	\$ 0	\$ 4,414	\$ 283,837

Note F – Disaggregation of revenue from contracts:

The following table disaggregates the Association’s revenue based on timing of satisfaction of performance obligations for the years ended:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Performance obligations satisfied at a point in time	\$ 394,340	\$ 348,795
Performance obligations satisfied over time	\$ 583,558	\$ 571,595

Revenues from performance obligations satisfied at a point in time consists of advertising sold, SACC receipts, merchandise sales and homecoming receipts.

Revenues from performance obligations satisfied over time consists of membership dues.

Note G – Investments:

Investments in marketable securities, endowment funds and the fiduciary funds are valued at their fair values in the statements of financial position. Investments consist of the following at December 31, 2019:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>
Cash and cash equivalents	\$ (13,888)	\$ (13,888)	\$ 0
Investment grade fixed income	11,173,989	10,897,053	276,936
Other fixed income	2,571,717	2,652,283	(80,566)
U.S. equities	12,801,831	8,935,443	3,866,388
Non-U.S. equities	6,533,317	5,884,634	648,683
Hedge funds	2,346,734	1,650,000	696,734
Private equity funds	956,852	810,112	146,740
Real estate funds	1,402,918	1,250,000	152,918
Commodities and other investments	68,797	65,617	3,180
	<u>\$ 37,842,267</u>	<u>\$ 32,131,254</u>	<u>\$ 5,711,013</u>

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note G – Investments (continued):

Investments consist of the following at December 31, 2018:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>
Cash and cash equivalents	\$ 6,886	\$ 6,886	\$ 0
Investment grade fixed income	10,137,572	10,376,199	(238,627)
Other fixed income	2,340,561	2,554,906	(214,345)
U.S. equities	10,621,233	9,416,024	1,205,209
Non-U.S. equities	5,438,105	5,895,011	(456,906)
Hedge funds	485,928	500,000	(14,072)
Private equity funds	561,529	493,037	68,492
Real estate funds	1,033,766	950,000	83,766
Commodities and other investments	105,185	37,604	67,581
	<u>\$ 30,730,765</u>	<u>\$ 30,229,667</u>	<u>\$ 501,098</u>

Investment revenues are reported net of related investment expenses in the statement of activities and changes in net assets.

Investment income and its classification in the financial statements for the year ended December 31, 2019, was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 36,473	\$ 772,635	\$ 809,108
Net realized and unrealized gain (loss)	<u>252,537</u>	<u>4,249,308</u>	<u>4,501,845</u>
Totals	<u>\$ 289,010</u>	<u>\$ 5,021,943</u>	<u>\$ 5,310,953</u>

Investment income and its classification in the financial statements for the year ended December 31, 2018, was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 40,072	\$ 796,292	\$ 836,364
Net realized and unrealized gain (loss)	<u>(131,726)</u>	<u>(2,140,031)</u>	<u>(2,271,757)</u>
Totals	<u>\$ (91,654)</u>	<u>\$ (1,343,739)</u>	<u>\$ (1,435,393)</u>

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note H – Fair value measurements:

FASB ASC 820, *Fair Value Measurements*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the most advantageous market in an orderly transaction between market participants on the measurement date. Under this guidance, the Association is also required to classify the inputs used to measure certain assets and liabilities based on the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association 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, such as interest rates observable at commonly quoted intervals and contract terms of interest swap agreements.
- 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.

A financial asset or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement. Level 1 instrument valuations are obtained from real-time quotes in active exchange markets involving identical assets. U.S. equities, non-U.S. equities, exchange traded funds, and commodities are valued at the closing price reported on the active market on which the individual securities are traded. Fixed income funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Association are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Association are deemed to be actively traded. There has been no change in the valuation method from the prior year. The remaining Level 3 fair values have been estimated by management, based on the following:

Private Equity and Real Estate Funds: These funds are valued at their NAV when available, or estimated at total capital balance when available, plus any contributions and reduced by any distributions since the last capital statement.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note H – Fair value measurements (continued):

Furthermore, although the Association believes its valuation methods 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 a different fair value measurement at the reporting date.

Assets measured at fair value on a recurring basis at December 31, 2019 comprise the following:

	<i>Fair value measurements at reporting date using:</i>			
	<i>Fair Value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
Investment grade fixed income	\$ 11,173,989	\$ 11,173,989	\$ 0	\$ 0
Other fixed income	2,571,717	2,571,717	0	0
U.S. equities	12,801,831	12,801,831	0	0
Non-U.S. equities	6,533,317	6,533,317	0	0
Private equity funds	956,852	0	0	956,852
Real estate funds	1,402,918	0	0	1,402,918
Cash, commodities and other	54,909	54,909	0	0
Total assets in the fair value hierarchy	35,495,533	33,135,763	0	2,359,770
Investments measured at net asset value:				
Hedge funds	2,346,734	0	0	0
Total	\$ 37,842,267	\$ 33,135,763	\$ 0	\$ 2,359,770

Assets measured at fair value on a recurring basis at December 31, 2018 comprise the following:

	<i>Fair value measurements at reporting date using:</i>			
	<i>Fair Value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
Investment grade fixed income	\$ 10,137,572	\$ 10,137,572	\$ 0	\$ 0
Other fixed income	2,340,561	2,340,561	0	0
U.S. equities	10,621,233	10,621,233	0	0
Non-U.S. equities	5,438,105	5,438,105	0	0
Private equity funds	561,529	0	0	561,529
Real estate funds	1,033,766	0	0	1,033,766
Cash, commodities and other	112,071	112,071	0	0
Total assets in the fair value hierarchy	30,244,837	28,649,542	0	1,595,295
Investments measured at net asset value:				
Hedge funds	485,928	0	0	0
Total	\$ 30,730,765	\$ 28,649,542	\$ 0	\$ 1,595,295

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note H – Fair value measurements (continued):

The Association recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels during the years ended December 31, 2019 and 2018.

A reconciliation for assets using significant unobservable inputs for the years ended December 31, 2019 and 2018 is as follows for the Association:

	<i>Private Equity Funds</i>	<i>Real Estate Funds</i>
Balance, January 1, 2018	\$ 226,041	\$ 770,406
Contributions	366,114	227,664
Distributions	(99,118)	(48,070)
Net realized and unrealized gain	68,492	83,766
Balance, January 1, 2019	\$ 561,529	\$ 1,033,766
Contributions	423,321	308,406
Distributions	(174,738)	(92,172)
Net realized and unrealized gain	146,740	152,918
Balance, December 31, 2019	\$ 956,852	\$ 1,402,918

A financial asset's classification within the above hierarchy is determined based on the lowest level input (as defined above) that is significant to the fair value measurement. There have been no changes in the methodologies used at December 31, 2019.

Investments measured using net asset value per share practical expedient and Level 3 inputs:

The following table summarizes the investments for which fair value is measured using net asset value per share as a practical expedient and investments measured at Level 3 using significant unobservable inputs as of December 31, 2019:

	<i>Fair Value</i>	<i>Unfunded Commitments</i>	<i>Redemption Frequency (if currently eligible)</i>	<i>Redemption Notice Period</i>
Private equity funds	\$ 956,852	\$ 1,586,447	No liquidity	None
Real estate funds	\$ 1,402,918	\$ 332,000	Quarterly*	Quarterly*
Hedge fund	\$ 2,346,734	\$ 0	Monthly	12 Days

**To the extent the fund has available cash, investor may request to redeem on calendar quarter-end any portion of its capital account.*

The investment strategy of the private equity funds is to achieve long-term capital gains through direct or indirect investments in equity, equity related and similar securities or instruments. The investment strategy of the real estate funds is to invest in real estate assets located in the United States to provide investors with current income and long-term capital appreciation. The investment strategy of the hedge fund is to employ directional trading strategies that generally fall into one of the following two categories: managed future strategies and global macro strategies.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note H – Fair value measurements (continued):

Investment securities are exposed to various types of risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and such changes could materially affect investments.

Note I – Pledges receivable:

Included in pledges receivable are the following promises to give at December 31:

	<u>2019</u>	<u>2018</u>
Restricted to future periods	\$ 4,780,098	\$ 4,731,917
Less: Unamortized discount	569,988	514,776
Allowance for doubtful accounts	267,685	264,987
Net unconditional promises to give	<u>\$ 3,942,425</u>	<u>\$ 3,952,154</u>
 Amounts due in:		
Less than one year	\$ 533,704	\$ 1,915,592
One to five years	1,785,058	960,170
Thereafter	2,461,336	1,856,155
	<u>\$ 4,780,098</u>	<u>\$ 4,731,917</u>

Note J – Related party:

The Association is located in the Alumni Center located at the Academy. In accordance with the memorandum of agreement with the Academy, the Association pays the Academy for utility costs. During the years ended December 31, 2019 and 2018, the Association reimbursed the Academy \$30,000 for these costs. In addition, the Association provides support to the Academy in the form of gifts and the use of facilities totaling \$5,063,253 and \$3,338,744, for the years ended December 31, 2019 and 2018, respectfully. These amounts are included under Academy Support on the statement of activities and changes in net assets.

Note K – Split-interest agreements:

The Association administers various Charitable Gift Annuities. Under the annuity contracts, donors contribute assets to the Association and in return receive a guaranteed fixed income for life. Assets received are recorded at fair value on the date the agreement is recognized. A liability equal to the present value of the future distributions is recorded. The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. On an annual basis, the Association revalues the liability based on applicable Internal Revenue Service (“IRS”) mortality tables and discount rates of 2.0% and 3.6% at December 31, 2019 and 2018, respectively.

The change in net present value of the future annuities payable was \$15,172 and \$5,402 at December 31, 2019 and 2018, respectively, and the present value of the estimated future payments totaled \$78,937 and \$77,553, at December 31, 2019 and 2018, respectively. Assets that are derived from the split-interest agreements are included in cash and cash equivalents.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note L – Supplemental disclosure of cash flow information:

	<u>2019</u>	<u>2018</u>
Interest paid during the year	<u>\$ 0</u>	<u>\$ 0</u>

Note M – Affinity agreement:

The Association entered into an affinity agreement with a bank. In July 2017 the agreement was extended through June 30, 2022. The Association received royalties of \$0 and \$10,000 for the years ended December 31, 2019 and 2018, respectively. This amount has been included in the change in net assets from operations.

Note N – Margin loan:

The Association obtained a margin loan in February 2010, that bears interest at the 30-day LIBOR rate plus 1.15% (3.65% as of December 31, 2019). The total borrowing capacity on the margin loan is \$5,000,000. The margin loan is secured by marketable securities held in accounts at the same financial institution. At December 31, 2019 and 2018, the Association had \$0 outstanding against the loan.

Note O – Retirement benefits:

The Association maintains a defined contribution 403(b) savings plan covering all eligible employees. Each employee may elect to contribute to the plan through a salary reduction up to the maximum allowable contribution limit as adjusted annually by the IRS. In addition, the Association will contribute a maximum matching amount of \$13,500 for each eligible employee. The total retirement expense was \$77,966 and \$52,609 for the years ended December 31, 2019 and 2018, respectively.

Note P – Leases:

The Association entered into a twenty-year lease agreement with the United States Coast Guard for land located at the United States Coast Guard Academy in New London, Connecticut. The lease commenced on October 1, 2004, and includes rent in the amount of \$1 for the entire lease term.

Note Q – Board-designated net assets:

The Board has designated funds for the following at December 31:

	<u>2019</u>	<u>2018</u>
Alumni Center Operations Maintenance fund	\$ 1,631,673	\$ 1,479,723
Operating reserve	375,000	375,000
Reserve for annuities	<u>150,000</u>	<u>150,000</u>
	<u>\$ 2,156,673</u>	<u>\$ 2,004,723</u>

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note R – Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Support for various U.S. Coast Guard Academy programs, capital campaigns, and class gifts	\$ 10,148,768	\$ 9,251,222
Promises to give, net – the proceeds which have been restricted by donors for Academy support, capital campaigns, and class gifts	<u>3,917,480</u>	<u>3,913,364</u>
	<u>\$ 14,066,248</u>	<u>\$ 13,164,586</u>
Endowments:		
Subject to Association’s endowment spending policy and appropriation:		
General use of the Association	\$ 1,360,189	\$ 1,207,817
Academy programs/support	559,953	480,552
Class endowments	8,807,860	7,501,448
Tyler Leadership Endowment	3,148,967	2,638,985
Named endowments	<u>13,203,475</u>	<u>9,447,074</u>
Total endowments	<u>27,080,444</u>	<u>21,275,876</u>
Total net assets with donor restrictions	<u>\$ 41,146,692</u>	<u>\$ 34,440,462</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by the donors as follows for the year ended December 31:

	<u>2019</u>	<u>2018</u>
Satisfactions of purpose restrictions for various programs, capital campaigns, and class gifts	\$ 4,837,055	\$ 2,691,586
Restricted-purpose spending policy distributions and appropriations	<u>513,967</u>	<u>916,920</u>
Total net assets released from restrictions	<u>\$ 5,351,022</u>	<u>\$ 3,608,506</u>

Note S – Endowment:

The Association’s endowment consists of approximately 90 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, 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.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note S – Endowment (continued):

The Board of Directors of the Association has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (“CTUPMIFA”) 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 Association classifies as net asset with donor restrictions (a) the original value of the 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 at the time the accumulation is added to the fund. Also included in the net assets with donor restrictions is the accumulated appreciation on the donor restricted permanent endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by CTUPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift. In accordance with CTUPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association and (7) the Association’s investment policies.

The Association has adopted investment and spending policies approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity, while growing the funds if possible. Therefore, the Association seeks investment returns that will maintain adequate liquidity to meet its operational requirements as determined by the Board of Directors and Association staff. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Association has a policy of appropriating for distribution each year 4% to 6% of its endowment fund’s average fair value of the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Association considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Association expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Association’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

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 Association to retain as a fund of perpetual duration. Deficiencies of this nature would be reported as net assets with donor restrictions. There were no funds with deficiencies at December 31, 2019 and 2018.

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note S – Endowment (continued):

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>Total</i></u>
Donor-restricted endowment funds	\$ 0	\$ 27,080,444	\$ 27,080,444
Board-designated functioning as endowment funds	<u>1,631,673</u>	<u>0</u>	<u>1,631,673</u>
Total funds	<u>\$ 1,631,673</u>	<u>\$ 27,080,444</u>	<u>\$ 28,712,117</u>

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>Total</i></u>
Donor-restricted endowment funds	\$ 0	\$ 21,275,876	\$ 21,275,876
Board-designated functioning as endowment funds	<u>1,479,723</u>	<u>0</u>	<u>1,479,723</u>
Total funds	<u>\$ 1,479,723</u>	<u>\$ 21,275,876</u>	<u>\$ 22,755,599</u>

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

**December 31, 2019
(With Comparative Totals for 2018)**

Note S – Endowment (continued):

Change in endowment net assets for the year ended December 31, 2019 is as follows:

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>Total</i></u>
Endowment net assets, December 31, 2018	\$ 1,479,723	\$ 21,275,876	\$ 22,755,599
Investment return:			
Investment income	36,473	579,486	615,959
Net appreciation (realized and unrealized)	252,537	4,012,318	4,264,855
Contributions	1,472	2,075,415	2,076,887
Fees	(23,850)	(348,684)	372,534
Appropriation of endowment assets for expenditures	<u>(114,682)</u>	<u>(513,967)</u>	<u>(628,649)</u>
Endowment net assets, December 31, 2019	<u>\$ 1,631,673</u>	<u>\$ 27,080,444</u>	<u>\$ 28,712,117</u>

Change in endowment net assets for the year ended December 31, 2018 is as follows:

	<u><i>Without Donor Restrictions</i></u>	<u><i>With Donor Restrictions</i></u>	<u><i>Total</i></u>
Endowment net assets, December 31, 2017	\$ 1,676,586	\$ 23,426,252	\$ 25,102,838
Investment return:			
Investment income	40,072	606,650	646,722
Net appreciation (realized and unrealized)	(131,726)	(1,994,201)	(2,125,927)
Contributions	9,332	473,496	482,828
Fees	(24,527)	(319,401)	(343,928)
Appropriation of endowment assets for expenditures	<u>(90,014)</u>	<u>(916,920)</u>	<u>(1,006,934)</u>
Endowment net assets, December 31, 2018	<u>\$ 1,479,723</u>	<u>\$ 21,275,876</u>	<u>\$ 22,755,599</u>

UNITED STATES COAST GUARD ACADEMY ALUMNI ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019
(With Comparative Totals for 2018)

Note T- Commitment:

Subsequent to year end, in February 2020, the Board approved the Association's commitment to fund the Academy's Maritime Center of Excellence project. The total projected cost of the project is \$20.8 million and is scheduled to be completed in October 2021. The Association has committed to fund approximately \$18.8 million to \$19.3 million of the total project costs, with the U.S. Coast Guard providing the additional funding.

Note U – Reclassifications

Certain amounts reported on the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note V – Subsequent event:

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result, the major stock markets throughout the world have declined significantly, resulting in a negative impact on the Association's investments and activities. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while the Association expects this matter to negatively impact their results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.