

Marine Corps Heritage Foundation and Affiliate

Consolidated Audited Financial Statements

and Other Financial Information

Year ended December 31, 2021
with Report of Independent Auditors

Marine Corps Heritage Foundation and Affiliate

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and Other Financial Information

Year ended December 31, 2021

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Report of Independent Auditors

Board of Directors
Marine Corps Heritage Foundation and Affiliate

Opinion

We have audited the consolidated financial statements of Marine Corps Heritage Foundation and Affiliate (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position and Consolidating Schedule of Activities on pages 21 - 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
April 19, 2022

Marine Corps Heritage Foundation and Affiliate

Consolidated Statement of Financial Position

As of December 31, 2021

	<u>2021</u>
Assets	
Cash and cash equivalents	\$ 6,502,170
Investments	20,016,836
Accounts receivable	176,154
Pledges receivable, net	5,201,338
Prepaid expenses	192,377
Heritage Center, net	68,159,613
Construction in progress	21,811,490
Fixed assets, net	458,452
Cash surrender value of life insurance policies	117,762
Retirement plan assets	<u>563,831</u>
Total assets	<u>\$ 123,200,023</u>
Liabilities and net assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 389,162
Notes payable	1,861,809
Retirement plan liabilities	<u>563,831</u>
Total liabilities	2,814,802
Net assets:	
Without donor restrictions	118,398,023
With donor restrictions	<u>1,987,198</u>
Total net assets	<u>120,385,221</u>
Total liabilities and net assets	<u>\$ 123,200,023</u>

See accompanying notes to consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Consolidated Statement of Activities

Year ended December 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions	\$ 10,954,277	\$ 5,000	\$ 10,959,277
Museum gift shop income	201,563	-	201,563
Theater/rifle range revenue	59,781	-	59,781
Other revenue	64,959	-	64,959
Special events	96,929	-	96,929
In-kind support	18,918	-	18,918
Investment income, net	291,277	58,901	350,178
Net assets released from restrictions	<u>220,420</u>	<u>(220,420)</u>	-
Total revenue, gains and other support	11,908,124	(156,519)	11,751,605
Expenses			
Program services:			
Museum & Heritage Center	8,335,418	-	8,335,418
Marine Corps University History Division	269,075	-	269,075
Other historical support	<u>268,190</u>	-	<u>268,190</u>
Total program services	8,872,683	-	8,872,683
Supporting services:			
Fundraising	2,543,839	-	2,543,839
General and administrative	<u>975,316</u>	-	<u>975,316</u>
Total supporting services	<u>3,519,155</u>	-	<u>3,519,155</u>
Total expenses	<u>12,391,838</u>	-	<u>12,391,838</u>
Change in net assets, before change in fair value of investments	(483,714)	(156,519)	(640,233)
Change in fair value of investments	<u>1,111,438</u>	<u>11,421</u>	<u>1,122,859</u>
Change in net assets	627,724	(145,098)	482,626
Net assets, beginning of year	<u>117,770,299</u>	<u>2,132,296</u>	<u>119,902,595</u>
Net assets, end of year	<u>\$ 118,398,023</u>	<u>\$ 1,987,198</u>	<u>\$ 120,385,221</u>

See accompanying notes to consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Consolidated Statement of Functional Expenses

Year ended December 31, 2021

	Program Services				Supporting Services			
	Museum & Heritage Center	Marine Corps University History Division	Other historical support	Total Program Expenses	Fundraising	General and administrative	Total Supporting Expenses	Total Expenses
Accounting and auditing	\$ 15,883	\$ 986	\$ 2,137	\$ 19,006	\$ 12,363	\$ 20,078	\$ 32,441	\$ 51,447
Advertising	139,396	-	-	139,396	-	-	-	139,396
Awards	-	-	3,731	3,731	-	-	-	3,731
Bank charges	1,516	-	-	1,516	-	15,077	15,077	16,593
Bad debt	-	-	-	-	143,560	-	143,560	143,560
Consulting	194,433	-	-	194,433	243,306	11,372	254,678	449,111
Credit card fees	32,870	-	-	32,870	26,904	26,984	53,888	86,758
Depreciation	193,305	1,123	2,434	196,862	14,082	22,870	36,952	233,814
Depreciation - Heritage Center	5,264,988	-	-	5,264,988	-	-	-	5,264,988
Direct marketing	708,146	-	-	708,146	1,274,663	377,678	1,652,341	2,360,487
Dues and subscriptions	18,064	-	-	18,064	1,600	1,520	3,120	21,184
Educational support	160,908	-	-	160,908	-	-	-	160,908
Gifts	-	-	-	-	-	1,785	1,785	1,785
Insurance	90,560	-	-	90,560	-	6,453	6,453	97,013
Interest	87,789	-	-	87,789	-	-	-	87,789
Maintenance	232,363	1,213	2,627	236,203	94,612	67,664	162,276	398,479
Marketing	18,357	13,681	13,681	45,719	41,084	-	41,084	86,803
Meetings	4,252	-	-	4,252	491	22,805	23,296	27,548
Museum and historical support	161,364	145,331	130,000	436,695	-	-	-	436,695
Museum expenses - LLC	34,825	-	-	34,825	-	-	-	34,825
Office expense	6,989	-	-	6,989	883	15,350	16,233	23,222
Postage and shipping	122	-	-	122	7,368	4,762	12,130	12,252
Printing	1,292	-	-	1,292	2,450	-	2,450	3,742
Professional fees	7,886	442	127	8,455	2,686	23,279	25,965	34,420
Salaries, taxes, and benefits - Foundation	570,287	20,815	45,100	636,202	645,956	313,243	959,199	1,595,401
Salaries, taxes, and benefits - Museum, History Division, and Band Support	240,264	83,741	23,054	347,059	-	-	-	347,059
Special events	4,808	-	39,090	43,898	-	-	-	43,898
Staff training	-	-	-	-	2,088	2,192	4,280	4,280
Taxes and licenses	30,682	-	-	30,682	14,451	29,098	43,549	74,231
Telephone and utilities	95,864	549	1,189	97,602	11,985	12,021	24,006	121,608
Travel	2,081	-	-	2,081	2,225	-	2,225	4,306
USMC Support	-	-	2,432	2,432	-	-	-	2,432
Website and internet	16,124	1,194	2,588	19,906	1,082	1,085	2,167	22,073
Total	\$ 8,335,418	\$ 269,075	\$ 268,190	\$ 8,872,683	\$ 2,543,839	\$ 975,316	\$ 3,519,155	\$ 12,391,838

See accompanying notes to consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Consolidated Statement of Cash Flows

Year ended December 31, 2021

	<u>2021</u>
Cash flows from operating activities	
Change in net assets	\$ 482,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,498,802
Receipt of donated stock	(351,918)
Change in fair value of investments	(1,122,859)
Change in pledges allowance and discount	140,645
Changes in operating assets and liabilities:	
Accounts receivable	71,960
Pledges receivable	(1,835,167)
Prepaid expenses	31,126
Retirement plan assets	(106,600)
Accounts payable and accrued expenses	(267,321)
Retirement plan liabilities	<u>106,600</u>
Net cash provided by operating activities	2,647,894
Cash flows from investing activities	
Purchases of investments	(5,304,457)
Proceeds from sales of investments	7,105,400
Purchases of fixed assets	<u>(290,908)</u>
Net cash provided by investing activities	1,510,035
Cash flows from financing activities	
Payments on notes payable	<u>(1,861,809)</u>
Net cash used in financing activities	<u>(1,861,809)</u>
Net change in cash and cash equivalents	2,296,120
Cash and cash equivalents, beginning of year	<u>4,206,050</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,502,170</u></u>
Supplemental disclosures of cash flow information	
Cash paid in the year for loan interest	<u><u>\$ 97,745</u></u>

See accompanying notes to consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements

Year ended December 31, 2021

Note A - Organization and Summary of Significant Accounting Policies

The Marine Corps Heritage Foundation (the Foundation) was established to preserve and promulgate the history, traditions and culture of the United States Marine Corps (USMC) and educate all Americans in its virtues. The Foundation is registered as a non-profit organization in the Commonwealth of Virginia. In 2001, the Foundation commenced raising funds to build the Heritage Center and National Museum of the Marine Corps (the Museum) located in Triangle, Virginia. Ground was broken on Phase I construction in the spring of 2004 and the Museum opened in November 2006. Phase I of the Museum depicts USMC history from inception in 1775 through the Vietnam War.

In 2011, the Foundation initiated a second capital campaign to complete the Museum. Phase II construction was completed in 2017 and included the opening of a Combat Art Gallery, a giant screen theater, administrative office spaces, a children's activity area, and educational classrooms. The Marine Corps is currently working on exhibits for the new galleries that will honor the service of all Marines from the end of the Vietnam War to the current day. The new historical galleries, a Medal of Honor gallery, and a Sports gallery/Hall of Fame are expected to open in phases during the next few years. The cumulative value of the Heritage Center, including the Museum, is reported on the consolidated statement of financial position in assets and net assets without donor restrictions.

The Foundation provides internships and fellowships for Marine Corps historical projects, sponsors award competitions, and provides program support to the History Division of Marine Corps University and the Museum.

The consolidated financial statements include the assets, liabilities and activities of the Heritage Center LLC (the LLC). The LLC was incorporated in Virginia on June 5, 2006 as a single member LLC, with the Foundation as the sole member. The LLC's operating agreement with the Foundation authorizes the LLC to operate revenue-producing units in the Museum, which include the Museum Store, restaurants, event space rentals, a laser rifle range and the giant screen theater. The LLC may distribute funds that were generated at the Museum to the Foundation to support the continued development of the Heritage Center and other Foundation programs. The LLC did not distribute any funds to the Foundation in 2021.

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and the LLC (collectively referred to as the Foundation). Significant intercompany accounts and transactions have been eliminated in consolidation.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance).

Measure of Operations

The consolidated statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Foundation's ongoing program and supporting services. Nonoperating activities are limited to the change in fair value from investments.

Use of Estimates

Preparation of consolidated financial statements in accordance with 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, and those differences could be material.

Subsequent Events

The Foundation has performed an evaluation of subsequent events through April 19, 2022, which is the date the consolidated financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and notes.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. The LLC is a disregarded entity, and is consolidated into the Foundation for tax reporting purposes. Management has concluded that the Foundation has maintained its tax exempt status and that there are no uncertain tax positions as of December 31, 2021.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include only demand deposits and savings accounts. Certificates of deposit, money market funds, and other short-term, highly liquid investments purchased for its portfolio that are intended to be invested are treated as investments rather than cash equivalents, including those certificates of deposit that have original maturities at the date of purchase of less than 90 days. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits prescribed by law. The Foundation may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Investments and Fair Value Measurement

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Subsequent to the initial recording, investments are adjusted to fair values in the consolidated statement of financial position. Net investment income (or loss) is reported on the consolidated statement of activities and consists of interest and dividends, less external investment expenses. The change in fair value of investments, also reported on the consolidated statement of activities, includes gains and losses realized upon sales and unrealized resulting from fluctuations in market values of investments.

In accordance with GAAP, the Foundation prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that the Foundation has the ability to access.

Level 2 – Inputs to the valuation methodology include 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, inputs other than quoted prices that are observable for the assets or liabilities for substantially the entire period and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

In accordance with GAAP, the Foundation's alternative investment funds, which are measured at fair value using the net asset value per share (or equivalent) as a practical expedient, have not been classified in the fair value hierarchy.

Certificates of deposit and money market funds held do not meet the definition of securities under accounting standards and thus are not subject to the fair value disclosure requirements of GAAP.

Risks and Uncertainties

The Foundation invests in various securities. These securities are exposed to a variety of risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amount reported in the consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties (continued)

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. The Foundation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Foundation and its donors, employees and vendors. As such, COVID-19 could have a material adverse effect on the Foundation's financial position in the future including the impact on contributions, and/or fair value of the Foundation's investments. The ultimate duration and impact of the COVID-19 outbreak on the Foundation's financial position cannot be reasonably estimated at this time.

Fixed Assets

Furniture and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated life of 3-10 years. Expenditures for maintenance and repairs are expensed as incurred; betterments which increase the value or materially extend the life of the related assets are capitalized.

Heritage Center

The Heritage Center consists of the National Museum of the Marine Corps, Memorial Chapel, Semper Fidelis Memorial Park, Heritage Center Parkway with an overlook, and the Playground. The 2001 National Defense Authorization Act stipulates that the Heritage Center is to be transferred to the Department of the Navy once all financial obligations have been met which is currently anticipated to be 2024.

These assets are depreciated on a straight-line basis over their estimated useful lives of 20 to 30 years. The Foundation capitalizes costs in accordance with the Foundation's established threshold, while expensing amounts incurred for routine repairs and maintenance.

The carrying value of the Heritage Center is periodically evaluated and adjusted for any perceived impairments in value. The amount of write-downs, if required, is charged to expense in the period the impairment is identified. Circumstances that could have a significant adverse effect on the value of the Heritage Center include a deficit in contributions necessary to maintain the property. During the year ended December 31, 2021, there were no impairments recognized.

Construction in Progress

Costs incurred to expand Semper Fidelis Memorial Park and Phase II costs associated with USMC post-Vietnam historical exhibit galleries, a Medal of Honor gallery and a Sports Gallery/Hall of Fame have been capitalized and are included as construction in progress on the consolidated statement of financial position. Depreciation on the construction in progress balance will begin when the assets are available for their intended use, and when the assets are in the location and condition necessary to operate in the manner intended by the Foundation.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Collections

The Foundation's collections include monuments located in Semper Fidelis Memorial Park and are held for public exhibition. Each of the collection items are cataloged, preserved, and cared for in a manner similar to works of art held for public exhibition. Activities verifying their existence and assessing their condition are performed continuously. These collection items are considered to be a permanent collection, and the Foundation has no intention of selling these items. Monuments deaccessioned from the collection for any reason would not be sold, but may be gifted to the USMC or the Department of the Navy, or may be returned to the original sponsoring individual, organization, assignees or heirs. Expenses incurred to maintain, repair or replace monuments in the collection are the sole responsibility of the Foundation. Contributed collections are not recognized as assets on the statement of financial position, and are valued at approximately \$3 million as of December 31, 2021.

Contributions

The Foundation recognizes contributions when an unconditional promise to give is received. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor imposed restrictions. A restricted contribution is reported as without donor restrictions if a restriction is fulfilled in the same time period in which the contribution is received.

The Foundation is aware of a split-interest agreement, in the form of a charitable remainder unitrust, where the Foundation is listed as the beneficiary of future benefits. The estimated amount of distribution after the donor's death is approximately \$3 million. The Foundation is not able to obtain sufficient information for the split-interest agreement in order to value the beneficial interest. Accordingly, it has not been recognized in the consolidated financial statements for the year ended December 31, 2021. There were no amounts received during 2021 from this split-interest agreement.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Pledges receivable that are due beyond one year are carried at the estimated present value of the future receipts based on their perceived collectability and aged outstanding balance and have been discounted using associated US Treasury rates in effect the year the pledge is received, which range from .65% to 2.51%.

Allowance for Uncollectible Pledges

The Foundation has established an allowance for uncollectible pledges. Although variability is inherent in such estimates, management believes that the allowance provided in the consolidated financial statements is adequate, but largely dependent on economic conditions. When all collection efforts have been exhausted, uncollectible pledged receivables are written off as bad debt expense.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note A - Organization and Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires. That is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

Notes Payable

Notes payable are recorded at principal plus accrued unpaid interest. See Note I for information on the notes payable.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their natural expenditure classification. Expenses such as salaries, taxes, benefits, depreciation not related to the Museum and Heritage Center, professional services, office expenses, information technology, insurance, and others are allocated on the basis of estimates of time and effort. Advertising and direct marketing costs are allocated based on a joint costs allocation, as the costs of producing these mailings is not directly attributable to any single function.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note B - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position are comprised of the following:

	December 31, 2021
Cash and cash equivalents	\$ 6,416,352
Investments	16,656,834
Accounts receivable	129,966
Pledges receivable	1,324,318
	<u>\$ 24,527,470</u>

The Foundation is substantially supported by contributions without donor restrictions; however, restricted gifts are occasionally received. Because a donor's restriction requires resources to be used for a particular purpose or during a specified time, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. As a result, not all financial assets will be available for expenditure within one year. The Foundation's management keeps detailed records to monitor restricted contributions and tracks when they would be available for general expenditures.

As part of the Foundation's liquidity management plan, the Foundation invests cash in excess of monthly requirements in short-term investments, certificates of deposit, and money market funds. Additionally, the Foundation has accounts and pledges receivable that are due within one year. A portion of the investments listed on the consolidated statement of financial position include certificates of deposit and money market funds held by the Foundation, which serve as collateral for the Foundation's loan agreement with Navy Federal Credit Union and are not available to cover general expenditures.

The Foundation structures its financial assets to be available when operating expenditures, liabilities and other obligations become due. The Foundation has evaluated its general expenditures for the next fiscal year and has determined that certain donor restrictions are for purposes related to the regular, ongoing programs and activities of the Foundation. Certain donor restricted financial assets are considered available for general expenditure within one year and are included in the above analysis.

The endowment funds consist of donor-restricted endowments which are not available for general expenditure. Income from donor-restricted endowments is restricted for specific purposes, unless the donor stipulates that income may be used for general expenditure. There are no board designated endowment funds, or any other self-imposed limits set aside by the board.

Assets held by the LLC are set aside for use by the LLC, and therefore are not considered available for general expenditure.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note C - Pledges Receivable

Pledges receivable consist of the following as of December 31, 2021:

Amounts due in:	
Less than one year	\$ 114,075
One to five years	4,841,358
More than five years	<u>732,125</u>
Total pledges	5,687,558
Less allowance and discount	<u>(486,220)</u>
Pledges net of allowance and discount	<u><u>\$ 5,201,338</u></u>

Note D - Investments and Fair Value Measurements

The following table is a summary of the Foundation's investments measured at fair value within the GAAP fair value hierarchy at December 31, 2021:

	Level 1	Level 2	Level 3	Net Asset Value As Practical Expedient	Total
Mutual funds	\$ 3,794,804	\$ -	\$ -	\$ -	\$ 3,794,804
Exchange traded funds	6,387,555	-	-	-	6,387,555
Common stock	2,120,551	-	-	-	2,120,551
Corporate bonds	-	3,681,532	-	-	3,681,532
Pooled investment fund	-	-	-	365,361	365,361
Hedge funds	-	-	-	86,031	86,031
Total investments held at fair value	<u>\$ 12,302,910</u>	<u>\$ 3,681,532</u>	<u>\$ -</u>	<u>\$ 451,392</u>	16,435,834
Money market funds					1,688,473
Certificates of deposit					<u>1,892,529</u>
Total investments					<u><u>\$ 20,016,836</u></u>

The Foundation's alternative investments consist primarily of one pooled investment fund and two hedge funds (collectively, Funds), whose values are derived from the Funds net asset value. There are certain restrictions on redemptions associated with these Funds.

Investments in the hedge funds are typically valued, as a practical expedient, utilizing the net asset valuations provided by the underlying private investment companies and or their administrators, without adjustment, when the net asset valuations of the investments are calculated in a manner consistent with GAAP for investment companies.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note D - Investments and Fair Value Measurements (Continued)

Retirement plan assets totaling \$563,831 at December 31, 2021 consist of pooled separate accounts, which are measured at fair value using the net asset value per share (or equivalent) as a practical expedient, and have not been classified in the fair value hierarchy.

The fair value of pledges receivable is assessed on a non-recurring basis in the initial year that multi-year commitments are received. During the year ended December 31, 2021, new pledges received and assessed at a Level 3 fair value were \$3,153,000.

Note E - Fixed Assets

Fixed assets of the Foundation consist of the following at December 31:

	December 31, 2021
Equipment and software	\$ 2,367,376
Furniture and fixtures	<u>282,339</u>
	2,649,715
Accumulated depreciation	<u>(2,191,263)</u>
Fixed assets, net	<u><u>\$ 458,452</u></u>

Note F - Heritage Center

The Heritage Center consists of the following at December 31:

	December 31, 2021
National Museum USMC	\$ 90,578,476
NMMC Theater	15,012,854
Semper Fidelis Memorial Park	7,718,903
Memorial Chapel	5,874,122
Heritage Center Parkway Overlook	2,347,504
Heritage Center Parkway	1,874,592
Playground	<u>497,137</u>
	123,903,588
Accumulated depreciation	<u>(55,743,975)</u>
Heritage Center, net	<u><u>\$ 68,159,613</u></u>

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note G - Net Assets With Donor Restrictions

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

	<u>December 31,</u> <u>2021</u>
Subject to expenditure for specified purpose	
Educational programs	\$ 985,636
Support programs	<u>1,145</u>
	986,781
Endowments to be held in perpetuity	
Grants and fellowships	423,598
Educational programs	<u>100,000</u>
	523,598
Subject to endowment spending policy and appropriation:	
Grants and fellowships	<u>476,819</u>
	<u><u>\$ 1,987,198</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended December 31:

	<u>December 31,</u> <u>2021</u>
Satisfaction of purpose restrictions:	
Awards	\$ 13,626
Support programs	38,440
Grants and fellowships	118,354
Education	<u>50,000</u>
	<u><u>\$ 220,420</u></u>

Note H - Endowment

The Foundation's endowment consists of three individual donor-restricted funds established to support grants and fellowships, and educational programs. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note H - Endowment (Continued)

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the date of the donor restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2021, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of the initial and subsequent gift amounts donated to the endowment fund (including promises to give net of discount and allowance for uncollectible amounts) and (b) any accumulations to the endowment that are required to be maintained in perpetuity. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by 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 purpose 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

As of December 31, 2021, the Foundation had the following endowment net asset composition by type of fund:

<u>With Donor Restrictions</u>	
Original donor-restricted gift amounts required to be maintained in perpetuity:	
Grants and fellowships	\$ 423,598
Educational programs	<u>100,000</u>
	523,598
Accumulated earnings from endowment:	
Grants and fellowships	<u>476,819</u>
	<u>\$ 1,000,417</u>

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note H - Endowment (Continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no deficiencies in donor-restricted endowment funds as of December 31, 2021, and thus, there has been no action taken by the Foundation during 2021 concerning appropriation from underwater endowment funds.

Investment and Spending Policies

The Foundation practices investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the original endowment gift. Endowment assets include donor-restricted gifts that the Foundation must hold in perpetuity. The Foundation expects its endowment funds to provide a moderate rate of return over time. The Foundation uses a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized market gains) and current income through interest and dividends. The Foundation utilizes diversified asset allocations in order to achieve its long-term investment objectives within prudent risk management constraints. The Foundation withdraws donor-restricted endowment funds annually in an amount sufficient to cover the previous year's qualifying program expenses incurred.

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

<u>With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$ 1,077,073
Investment return, net	30,184
Net realized and unrealized gain	5,983
Expenditure appropriations	<u>(112,823)</u>
Endowment net assets December 31, 2021	<u><u>\$ 1,000,417</u></u>

Note I - Notes Payable

The Foundation entered into a line of credit agreement with Navy Federal Credit Union on April 13, 2015, which allowed borrowing up to \$20,000,000 for use in the construction expansion of the National Museum of the Marine Corps. The line of credit was converted to a term loan totaling \$14,309,045 on April 13, 2017 and was set to mature on April 13, 2022. In March 2022, the loan agreement was extended and now matures on April 13, 2024. Payment is due in one lump sum at the maturity date. Loan principal payments amounted to \$1,861,809 for the year ended December 31, 2021.

Interest accrues on the unpaid balance at a rate of 3.50%, which will continue to be accrued until paid in full. During the year ended December 31, 2021, total interest costs incurred amounted to \$87,789. Interest was expensed as incurred during 2021.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note J - Retirement Plans

The Foundation provides a salary deferral arrangement which is qualified under Section 403(b) of the Internal Revenue Code. Employees working more than 20 hours per week may begin making elective contributions upon reaching age 21. The Foundation begins matching 50% of the amount deferred by participants after employees complete 90 days of service. Benefits expense for the year ended December 31, 2021 was \$89,854.

The Foundation also sponsors a deferred compensation plan under IRC Section 457(b). Eligible employees may elect to have amounts, subject to statutory limits which are annually adjusted, withheld from their compensation and contributed to funds established for the employees' benefit. Deferred compensation assets held by the Foundation under the plan for which the employees are 100% vested total \$563,831 for the year ended December 31, 2021. The consolidated statement of financial position reflects an asset and corresponding liability for this retirement plan.

Note K - Commitments

Retail Operating Agreement

The Foundation entered into a lease and operating agreement with a third party provider (Provider) to conduct museum gift shop operations beginning February 2015. The agreement is for an initial term of six years and automatically renews for an additional five-year term.

The agreement stipulates that the Provider will pay both a fixed and variable rent. The fixed rental income, referred to as the base rent is \$3,452 per month for the right to use the premises for purposes of retail concessions. The variable rental income is based on a percentage of gross receipts of sales on a three tiered basis, excluding any sales taxes, returns and other items as designated per the contract. The three tiers are: 15% of gross receipts up to \$2,000,000; 20% of gross receipts between \$2,000,000 and \$2,500,000; and 25% of gross receipts greater than \$2,500,000. Lastly, the Provider is to make a capital investment between \$80,000 and \$100,000 for improvements to the retail premises within the initial term of the agreement and between \$50,000 and \$75,000 within the first 24 months of the renewal term.

The agreement contains a clause that requires the Foundation to purchase directly from the third party provider any branded inventory that is not saleable should the agreement be terminated. As of December 31, 2021, the Foundation has no intentions to terminate the agreement.

Note L - Allocation of Joint Costs of Direct Mailings

The Foundation produces mailings that include programmatic and administrative information, together, with a request for contributions in support of the Foundation's mission. The cost of producing these mailings is not directly attributable to any single function. In 2021, the Foundation incurred joint costs of \$2,360,487 for informational materials and activities that included fundraising appeals. Of these costs, \$708,146 were allocated to program services, and \$1,274,663 and \$377,678 were allocated to fundraising and general and administrative, respectively.

Marine Corps Heritage Foundation and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note M - Related Party Transactions

The consolidated statement of financial position includes \$135,000 in outstanding pledges receivable as of December 31, 2021, from members of the Foundation's Board of Directors. The Foundation recognized \$72,420 in contribution revenue from these members for the year ended December 31, 2021.

Note N - In-Kind Support

In-kind support received by the Foundation is recorded at fair value and is reflected as without donor restrictions in the consolidated statement of activities as in-kind support and within each of the functional expense categories benefited (general and administrative, fundraising and program). In-kind support consisted of wheelchair repairs and cherry trees in the amounts of \$1,706 and \$17,213, respectively, for the year ended December 31, 2021.

Marine Corps Heritage Foundation and Affiliate

Consolidating Schedule of Financial Position

December 31, 2021

	December 31, 2021			
	<u>Foundation</u>	<u>Heritage Center, LLC</u>	<u>Reclassifications & Eliminations</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 6,416,352	\$ 85,818	\$ -	\$ 6,502,170
Investments	20,016,836	-	-	20,016,836
Investment in LLC	(249,449)	-	249,449	-
Accounts receivable	135,674	40,480	-	176,154
Pledges receivable, net	5,201,338	-	-	5,201,338
Due from LLC	640,506	-	(640,506)	-
Prepaid expenses	183,009	9,368	-	192,377
Heritage Center, net	68,159,613	-	-	68,159,613
Construction in progress	21,811,490	-	-	21,811,490
Fixed assets, net	121,046	337,406	-	458,452
Cash surrender value of life insurance policies	117,762	-	-	117,762
Retirement plan assets	563,831	-	-	563,831
Total assets	<u>\$ 123,118,008</u>	<u>\$ 473,072</u>	<u>\$ (391,057)</u>	<u>\$ 123,200,023</u>
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 307,147	\$ 82,015	\$ -	\$ 389,162
Due to Foundation	-	640,506	(640,506)	-
Notes payable	1,861,809	-	-	1,861,809
Retirement plan liabilities	563,831	-	-	563,831
Total liabilities	2,732,787	722,521	(640,506)	2,814,802
Net assets:				
Without donor restrictions	118,398,023	(249,449)	249,449	118,398,023
With donor restrictions	1,987,198	-	-	1,987,198
Total net assets	<u>120,385,221</u>	<u>(249,449)</u>	<u>249,449</u>	<u>120,385,221</u>
Total liabilities and net assets	<u>\$ 123,118,008</u>	<u>\$ 473,072</u>	<u>\$ (391,057)</u>	<u>\$ 123,200,023</u>

Marine Corps Heritage Foundation and Affiliate

Consolidating Schedule of Activities

Year ended December 31, 2021

	Year ended December 31, 2021					
	Foundation: Without Donor Restrictions	Foundation: With Donor Restrictions	Foundation Total	Heritage Center, LLC	Reclassifications & Eliminations	Total
Revenues, gains and other support						
Contributions	\$ 10,943,221	\$ 5,000	\$ 10,948,221	\$ 11,056	\$ -	\$ 10,959,277
Museum gift shop income	-	-	-	201,563	-	201,563
Theater/rifle range revenue	-	-	-	59,781	-	59,781
Other revenue	1,807	-	1,807	63,152	-	64,959
Special events	-	-	-	96,929	-	96,929
In-kind support	18,918	-	18,918	-	-	18,918
Investment income, net	290,877	58,901	349,778	400	-	350,178
Net assets released from restrictions	220,420	(220,420)	-	-	-	-
Total revenue, gains, and other support	11,475,243	(156,519)	11,318,724	432,881	-	11,751,605
Expenses						
Program services:						
Museum & Heritage Center	7,524,990	-	7,524,990	810,428	-	8,335,418
Marine Corps University History Division	269,075	-	269,075	-	-	269,075
Other historical support	268,190	-	268,190	-	-	268,190
Total program services	8,062,255	-	8,062,255	810,428	-	8,872,683
Supporting services:						
Fundraising	2,543,839	-	2,543,839	-	-	2,543,839
General and administrative	975,316	-	975,316	-	-	975,316
Total supporting services	3,519,155	-	3,519,155	-	-	3,519,155
Total expenses	11,581,410	-	11,581,410	810,428	-	12,391,838
Change in net assets, before change in fair value of investments	(106,167)	(156,519)	(262,686)	(377,547)	-	(640,233)
Change in fair value of investments	1,111,438	11,421	1,122,859	-	-	1,122,859
LLC net loss	(377,547)	-	(377,547)	-	377,547	-
Change in net assets	627,724	(145,098)	482,626	(377,547)	377,547	482,626
Net assets, beginning of year	117,770,299	2,132,296	119,902,595	128,098	(128,098)	119,902,595
Net assets, end of year	\$ 118,398,023	\$ 1,987,198	\$ 120,385,221	\$ (249,449)	\$ 249,449	\$ 120,385,221