



Marine Corps Heritage Foundation

Audited Consolidated Financial Statements

*Years ended December 31, 2010 and 2009
with Report of Independent Auditors*

Marine Corps Heritage Foundation
Audited Consolidated Financial Statements
Years ended December 31, 2010 and 2009

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Report of Independent Auditors

Board of Directors
Marine Corps Heritage Foundation
Quantico, VA

We have audited the accompanying consolidated statements of financial position of the Marine Corps Heritage Foundation ("the Foundation") as of December 31, 2010 and 2009 and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Marine Corps Heritage Foundation at December 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated statements of functional expenses and the consolidating statements of financial position and activities are presented for the purpose of additional analysis and are not a required part of the financial statements of the Foundation. This information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Johnson Lambert & Co. LLP

Falls Church, Virginia
April 11, 2011

Marine Corps Heritage Foundation

Consolidated Statements of Financial Position

	December 31,	
	2010	2009
Assets		
Cash and cash equivalents	\$ 3,305,366	\$ 1,898,222
Investments	6,697,462	5,959,035
Cash surrender value of life insurance policy	72,447	62,447
Pledges receivable, net	10,189,915	11,352,765
Grants receivable	1,429,826	-
Retirement plan assets	88,593	52,125
Accounts receivable	104,682	109,640
Inventory	563,696	593,669
Construction in progress	4,123,932	1,124,253
Heritage Center	70,285,646	70,362,129
Fixed assets, net	999,641	785,426
Prepaid expenses	79,005	25,573
Deposits	9,189	12,389
Total assets	\$ 97,949,400	\$ 92,337,673
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 1,201,864	\$ 1,225,816
Notes payable	4,304,425	6,929,425
Line of credit payable	700,000	-
Other payable	81,749	17,148
Annuity payable	11,434	6,705
Retirement plan liability	88,593	52,125
Agency funds	127,478	115,256
Total liabilities	6,515,543	8,346,475
Net assets		
Unrestricted net assets	8,873,062	6,311,851
Temporarily restricted net assets	82,028,864	77,247,416
Permanently restricted net assets	531,931	431,931
Total net assets	91,433,857	83,991,198
Total liabilities and net assets	\$ 97,949,400	\$ 92,337,673

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation

Consolidated Statements of Activities

	Year ended December 31,	
	2010	2009
Change in unrestricted net assets:		
Revenue, gains and other support		
Net sales	\$ 2,616,762	\$ 2,464,490
Less: Cost of sales	(1,188,425)	(1,057,796)
Total gross profit on sales	1,428,337	1,406,694
Contributions	4,141,945	5,341,494
Special events	523,223	328,662
Program revenue	112,851	92,584
Other income	118,304	86,693
Interest and dividends	130,225	65,069
Net assets released from restrictions	4,275,057	1,811,669
 Total revenue	 10,729,942	 9,132,865
Expenses		
Program services	4,371,362	3,578,555
Fundraising	2,296,063	2,145,994
General and administrative	1,578,801	1,299,491
Total expenses	8,246,226	7,024,040
Change in unrestricted net assets, before change in fair value of investments and realized losses	2,483,716	2,108,825
Change in fair value of investments	93,634	139,924
Realized loss on investments	(16,139)	(99,231)
Change in unrestricted net assets	2,561,211	2,149,518
 Change in temporarily restricted net assets		
Contributions	6,377,333	4,260,933
Grant revenue	2,430,327	72,928
Change in fair value of investments	205,355	547,208
Interest and dividends	43,490	68,724
Net assets released from restrictions	(4,275,057)	(1,811,669)
Change in temporarily restricted net assets	4,781,448	3,138,124
 Change in permanently restricted net assets		
Contributions	100,000	-
Change in permanently restricted net assets	100,000	-
Change in net assets	7,442,659	5,287,642
Net assets, beginning of year	83,991,198	78,703,556
Net assets, end of year	\$ 91,433,857	\$ 83,991,198

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation

Consolidated Statements of Cash Flows

	Year ended December 31,	
	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 7,442,659	\$ 5,287,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	224,045	103,907
Change in fair value of investments	(298,989)	(687,132)
Realized loss on sales of investments	16,139	99,231
Change in agency fund investments	(12,222)	(15,808)
Donated marketable securities	(184,735)	(387,430)
Loss on disposal of fixed assets	10,890	-
Changes in operating assets and liabilities:		
Pledges receivable, net of discount	1,162,850	1,630,963
Grants receivable	(1,429,826)	-
Accounts receivable	4,958	(80,498)
Inventory	29,973	54,136
Prepaid expenses	(53,432)	56,912
Deposits	3,200	-
Retirement plan assets	(36,468)	(37,085)
Accounts payable and accrued expenses	(23,952)	122,921
Deferred revenue	64,601	(21,789)
Retirement plan liability	36,468	37,085
Annuity payable	4,729	6,705
Net cash provided by operating activities	6,960,888	6,169,760
Cash flows from investing activities		
Payments for construction in progress	(2,999,679)	285,041
Purchases of investments	(1,437,904)	(2,659,956)
Proceeds from sales of investments	1,169,284	6,498,202
Adjustments (additions) to Heritage Center	76,483	(508,394)
Purchases of fixed assets	(449,150)	(6,410,503)
Net cash used in investing activities	(3,640,966)	(2,795,610)
Cash flows from financing activities		
Principal payments on note payable	(2,625,000)	(3,100,000)
Proceeds from bank line of credit	700,000	-
Agency funds	12,222	15,808
Net cash used in financing activities	(1,912,778)	(3,084,192)
Change in cash and cash equivalents	1,407,144	289,958
Cash and cash equivalents, beginning of year	1,898,222	1,608,264
Cash and cash equivalents, end of year	\$ 3,305,366	\$ 1,898,222

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Note A – Organization and Summary of Significant Accounting Policies

The Marine Corps Heritage Foundation (“the Foundation”) was established to support the active duty Marine Corps by promoting the study and understanding of Marine Corps history. The Foundation operates a store that sells Marine Corps logo items. It also provides internships and fellowships for Marine Corps historical projects, sponsors writing competitions, and provides financial support to the History Division and Museums Division of Marine Corps University.

Over the past several years, the Foundation has been raising funds to build the Heritage Center and National Museum of the Marine Corps (“the Museum”) devoted to depicting the Marine Corps history, professional military educational opportunities, and unique military events. An important mission of the Foundation is development of the Heritage Center which includes the Museum, a chapel, playground, roadway and walking pathways. The Foundation will deed the Museum to the Marine Corps when no financial obligation remains with regard to phase I construction. Ground was broken on phase I in the spring of 2004 and the grand opening was in the fall of 2006. Phase II of the project is currently in the capital fundraising phase.

The consolidated financial statements include the assets, liabilities and activities of Heritage Center LLC (“the LLC”). Intercompany transactions and balances have been eliminated in consolidation.

The Foundation registered as a non-profit organization in the Commonwealth of Virginia in 2008. Prior to 2008, the Foundation was registered in the District of Columbia. The LLC was incorporated in Virginia on June 5, 2006 as a single member LLC. The Foundation is the member. The LLC’s purpose is to operate revenue producing units in the Museum. Such units include the Museum Store and other interactive venues.

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

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities using three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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). Accordingly, revenue is recognized when earned and expenses when the obligations are incurred.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

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

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Foundation has performed an evaluation of subsequent events through April 11, 2011, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

Restricted Net Assets

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include only demand deposits and savings accounts. Certificates of deposit and other short-term, highly liquid investments purchased for its portfolio accounts and handled by its investment manager are treated as investments rather than cash equivalents. 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.

Inventory Valuation

Inventories are stated at lower of cost or market, with cost determined on a first-in, first-out basis. The value of manufacturer's consigned inventory is offset by a liability which is included in accounts payable.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

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

Investments and Fair Value Measurement

Investments are recorded at fair value, with gains and losses included in the statement of activities. The change in fair value of investments reflected in the accompanying statements of activities include those realized upon sales and unrealized resulting from fluctuations in market values of investments. Gains and losses realized upon sales are calculated using the average cost method.

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.

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 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.

The Foundation recognizes transfers between levels at either the actual date of the event or a change in circumstances that causes the transfer.

Fair Value of Financial Instruments

The carrying amounts including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and current maturities of long-term borrowings approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates on these instruments fluctuate with market interest rates offered to the Foundation for debt with similar terms and maturities.

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.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

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

Construction in Progress

Costs associated with phase II have been capitalized and are included as construction in progress on the statement of financial position. Projects that are currently included in construction in progress include the Semper Fidelis Memorial Park walking pathways and future expansion of the National Museum of the Marine Corps.

Shipping and Handling Fees and Costs

Inbound freight shipping and handling costs are included in inventory and in cost of sales when merchandise is sold. Shipping and handling costs of \$56,385 and \$32,380 were charged to the customer as part of the product order and recorded against sales revenue as of December 31, 2010 and 2009, respectively.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation 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, which means for tax purposes it will not file its own tax return and will be consolidated into the Foundation's 990. Management has concluded that the Foundation has maintained its tax exempt status and that there are no uncertain tax positions at December 31, 2010. Tax years 2007 through 2010 are subject to examination by federal and state authorities; there are currently no examinations being conducted.

Contributions

Contributions and pledges are recorded when the donor makes a contribution or promise to give to the Foundation that is, in substance, unconditional.

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 statements of financial position.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note B – Pledges Receivable

Pledges receivable consist of the following at December 31:

Amounts due in:	2010	2009
Less than one year	\$ 2,922,776	\$ 3,371,738
One to five years	6,689,289	7,291,242
More than five years	1,162,275	1,357,393
Total Pledges	10,774,340	12,020,373
Less allowance and discount	(584,425)	(667,608)
Pledges net of allowance and discount	\$ 10,189,915	\$ 11,352,765

Pledges receivable that are due beyond one year are carried at the estimated present value of the future receipts. In addition, as of December 31, 2010, the Foundation received a commitment for \$10,000,000 of which, \$2,000,000 has been received. The remaining \$8,000,000 is still subject to certain conditions and will be recognized in the statement of activities and the statement of financial position when conditions have been met.

In 2010, the Foundation received an interest in a trust that will provide \$500,000 to the Foundation. The amount has been discounted to its current present value and is recorded in pledge receivables on the consolidated statement of financial position.

Note C – Investments and Fair Value Measurements

The Foundation's total return on investments for the years ended December 31, 2010 and 2009 is comprised of the following:

	2010	2009
Interest and dividends	\$ 173,715	\$ 133,793
Realized losses	(16,139)	(99,231)
Unrealized gains	298,989	687,132
Investment advisory fees	(36,017)	(42,478)
Total investment return	\$ 420,548	\$ 679,216

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

The following table is a summary of the Foundation's investments at fair value within the fair value hierarchy at December 31, 2010:

Class of Security	Level 1	Level 3	Total
Cash equivalents	\$ 2,215,799	\$ -	\$ 2,215,799
Mutual funds:			
International	779,678	-	779,678
Fixed income	602,581	-	602,581
Value	506,714	-	506,714
Growth	437,123	-	437,123
Emerging markets	149,823	-	149,823
Other	175,622	-	175,622
Hedge fund	-	249,891	249,891
Beneficial interest held by a third party	-	1,580,231	1,580,231
Total investments at fair value	4,867,340	1,830,122	6,697,462
Retirement plan assets	88,593	-	88,593
Total assets at fair value	<u>\$ 4,955,933</u>	<u>\$ 1,830,122</u>	<u>\$ 6,786,055</u>

There were no transfers between levels of the fair value hierarchy in 2010.

The following table is a summary of the Foundation's investments at fair value within the fair value hierarchy at December 31, 2009:

Class of Security	Level 1	Level 3	Total
Cash equivalents	\$ 1,229,339	\$ -	\$ 1,229,339
Mutual funds:			
International	681,022	-	681,022
Fixed income	1,213,569	-	1,213,569
Value	436,160	-	436,160
Growth	480,507	-	480,507
Emerging markets	131,135	-	131,135
Other	62,433	-	62,433
Hedge fund	-	234,086	234,086
Beneficial interest held by a third party	-	1,490,784	1,490,784
Total investments at fair value	4,234,165	1,724,870	5,959,035
Retirement plan assets	52,125	-	52,125
Total assets at fair value	<u>\$ 4,286,290</u>	<u>\$ 1,724,870</u>	<u>\$ 6,011,160</u>

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

The changes in Level 3 investments at fair value are summarized as follows:

	Hedge fund	Interest held by third party	Total
Beginning balance	\$ 234,086	\$ 1,490,784	\$ 1,724,870
Purchases, issuance and settlements	9,240	-	9,241
Net investment gain for 2010	6,565	89,447	96,011
Ending balance	<u>\$ 249,891</u>	<u>\$ 1,580,231</u>	<u>\$ 1,830,122</u>

There were no transfers between levels of the fair value hierarchy in 2009.

Estimated fair value of assets classified as Level 3 securities for 2010 and 2009 is based on market value of the component securities and the calculation of the present value of future bequests.

Note D – Fixed Assets

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

	2010	2009
Equipment and software	\$ 947,005	\$ 594,299
Leasehold improvements	89,227	89,227
Office building	278,170	255,684
Vehicles	20,636	20,636
Furniture and fixtures	101,740	127,731
	<u>1,436,778</u>	<u>1,087,577</u>
Accumulated depreciation	(437,137)	(302,151)
Fixed assets, net	<u>\$ 999,641</u>	<u>\$ 785,426</u>

Note E – Agency Funds

The Foundation is the repository for donor-advised trust funds donated for the purpose of maintaining historical museum exhibits and offering awards to those preserving the history of women marines. These funds are included in the investments of the organization and also shown as a liability since the Foundation functions only as an intermediary in the holding and disbursement of these funds. Investment income on these funds increases the asset and related liability, and is not included as part of investment income of the Foundation.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note E – Agency Funds (Continued)

Agency funds in the amount of \$7,424 were recorded as temporarily restricted contributions for the year ended December 31, 2009 in accordance with the donor's request that the funds are to be used for the development of the Heritage Center. There were no agency funds being recorded as temporarily restricted contributions for the year ended December 31, 2010.

Note F – National Museum of the Marine Corps

The Foundation has been raising funds to develop the Heritage Center property and complete building the National Museum of the Marine Corps. The Museum is located on a 135 acre site in Quantico, Virginia. The entire project consists of multiple phases, the first of which was a 115,000 square foot building which opened in November 2006. Costs associated with the construction of the building (phase I) have been capitalized and the Museum was opened in November 2006.

Note G – Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions. Net assets released from restriction are as follows:

	2010	2009
Support programs	\$ 2,818,896	\$ 475,651
Expenditures for the Heritage Center	1,319,446	1,131,519
Awards and fellowships programs	136,511	89,773
Monuments	204	-
Reclassification of agency funds/net assets	-	114,726
Total assets released from restriction	\$ 4,275,057	\$ 1,811,669

At December 31, temporarily restricted net assets consist of funds available for the following purposes:

	2010	2009
Heritage Center	\$ 81,490,405	\$ 76,630,444
Awards and fellowships programs	302,406	259,711
Support programs	210,045	354,910
Monuments	26,008	2,351
Total temporarily restricted assets	\$ 82,028,864	\$ 77,247,416

Temporarily restricted net assets consist of funds to support various programs of the Foundation, including awards and fellowships, educational programs, and the development of the Heritage Center.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note G – Restricted Net Assets (Continued)

Endowment

The amounts classified as permanently restricted net assets in the consolidated statement of financial position represent the Foundation's endowment. The Board of Directors of the Foundation has interpreted Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation 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. Endowment earnings are classified as temporarily restricted until such time that they are appropriated for use.

As of December 31, 2010 the endowment consisted of four funds and totaled \$531,931. Endowment earnings were \$55,072 for the year ended December 31, 2010 and are recorded as temporarily restricted net assets in the statement of activities. No earnings were appropriated for use as of December 31, 2010. All permanently restricted net assets are required to be retained permanently either by explicit donor stipulation or by UPMIFA at December 31, 2010.

Note H – Notes Payable

The Foundation entered into a loan agreement with Wachovia Bank, N.A. to borrow up to \$23,000,000 for use in the construction of the National Museum of the Marine Corps. In November 2006, an agreement was signed that converted the original debt instrument into a term loan in the amount of \$15,700,000. This agreement also provided for an additional borrowing in the form of a revolving line of credit up to \$6,000,000. The term loan bears interest at the floating monthly LIBOR rate plus 1.0% and calls for principal payments every May 31 and November 30 beginning in May 2007 and ending on the maturity date of November 30, 2011. Interest is accrued monthly and is due and payable with each biannual principal payment through the maturity date. The line of credit bears interest at the floating monthly LIBOR rate plus 2%. As of December 31, 2010, one draw on the line of credit was made in the amount of \$700,000. Payment commitments on the term loan are to repay the remaining principal balance of \$4,304,425 by November 30, 2011.

During the years ended December 31, 2010 and 2009, total interest costs incurred amounted to \$77,149 and \$135,855, respectively. All interest incurred since inception has been capitalized.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note I – Charitable Gift Annuity

The Foundation received a total of \$20,000 during 2009 and 2010 from donors in order to establish charitable gift annuities. The charitable gift annuity agreements require the Foundation to make quarterly payments totaling \$285 to the donors for the remainder of the individuals' lives. The annuity agreements are not transferable and terminate at the donors' deaths. On the gift receipt date, the Foundation calculated a liability of \$5,569 in 2010 and \$6,816 in 2009 based on estimated future payments. The difference between the initial gifts and the calculated liabilities was recorded as contributions in the year received.

Note J – Retirement Plan

The Foundation provides a salary deferral arrangement which is qualified under Section 403(b) of the Internal Revenue Code. Employees may begin making elective contributions upon reaching age 21 and completing 90 days of service. The Foundation matches 50% of the amount deferred by participants. Pension expense for the years ended December 31, 2010 and 2009 was \$95,290 and \$103,272, respectively.

Note K – Commitments

The Foundation is obligated under various operating leases for office space and equipment. The current monthly charges are \$10,009. Minimum future rental payments under noncancellable operating leases as of December 31, 2010 are:

2011	\$	120,492
2012		<u>124,104</u>
Total	\$	<u>244,596</u>

Rent expense for the years ended December 31, 2010 and 2009 was \$135,030 and \$175,624, respectively.

Note L – Allocation of Joint Costs

The Foundation conducted activities which incurred joint costs for distribution of direct-mail fundraising appeals and program information. Total joint costs of \$1,831,628 included allocated amounts of \$366,326 to program services and \$1,465,303 to fundraising for the year ended December 31, 2010. Total joint costs of \$1,752,329 included allocated amounts of \$350,466 to program services and \$1,401,863 to fundraising for the year ended December 31, 2009.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note M – In-Kind Support

The Foundation receives in-kind online advertising support through a 2009 grant award. The fair market value of these services has been included in grant revenue and advertising expense line items in the consolidated statements of activities and amounted to \$79,375 and \$57,517 for the years ended December 31, 2010 and 2009, respectively.

Marine Corps Heritage Foundation

Consolidated Statement of Functional Expenses

Year ended December 31, 2010

	Program services	Fundraising	General and administrative	Total
Accounting and auditing	\$ -	\$ -	\$ 98,383	\$ 98,383
Advertising	223,586	15,136	74,336	313,058
Awards	50,328	-	-	50,328
Bank charges	3,442	-	13,559	17,001
Catalog	24,631	-	-	24,631
Consulting	214,589	151,128	-	365,717
Credit card fees	66,503	11,067	11,067	88,637
Depreciation	-	-	224,045	224,045
Direct mailing	366,325	1,465,303	-	1,831,628
Dues and subscriptions	4,108	1,309	501	5,918
Facilities development	103,151	-	-	103,151
Educational support	178,527	-	-	178,527
Gifts	-	-	12,196	12,196
Insurance	22,064	-	74,359	96,423
Investment fees	-	-	36,017	36,017
Loss on disposal of assets	-	-	10,890	10,890
Maintenance	48,969	15,194	12,774	76,937
Marketing	29,841	29,276	3,625	62,742
Meetings	2,223	149	40,470	42,842
Museum and historical support	478,606	-	-	478,606
Museum expenses - LLC	107,094	-	-	107,094
Office expense	28,004	4,658	52,451	85,113
Postage and shipping	60,573	11,162	9,381	81,116
Printing	3,360	14,820	6,019	24,199
Professional fees	18,276	-	58,871	77,147
Rent	8,693	-	126,337	135,030
Research	-	4,265	-	4,265
Salaries, taxes, and benefits	1,349,252	503,654	675,879	2,528,785
Special events	792,933	-	-	792,933
Staff training	3,942	-	2,641	6,583
Taxes and licenses	7,636	13,050	9,061	29,747
Telephone and utilities	98,768	10,805	10,805	120,378
Temporary help	810	7,439	-	8,249
Travel	8,193	23,432	917	32,542
USMC Support	5,192	-	-	5,192
Website and internet	61,743	14,216	14,217	90,176
Total	\$ 4,371,362	\$ 2,296,063	\$ 1,578,801	\$ 8,246,226

Marine Corps Heritage Foundation

Consolidated Statement of Functional Expenses

Year ended December 31, 2009

	Program services	Fundraising	General and administrative	Total
Accounting and auditing	\$ -	\$ -	\$ 100,349	\$ 100,349
Advertising	163,415	663	43,123	207,201
Awards	13,588	-	-	13,588
Bank charges	3,680	-	13,564	17,244
Catalog	61,437	-	-	61,437
Consulting	211,570	176,129	-	387,699
Credit card fees	58,578	11,745	11,745	82,068
Depreciation	-	-	103,906	103,906
Direct mailing	350,466	1,401,863	-	1,752,329
Dues and subscriptions	340	1,415	2,380	4,135
Facilities development	38,549	-	-	38,549
Gifts	-	-	1,360	1,360
Insurance	55,398	-	17,194	72,592
Investment fees	-	-	42,478	42,478
Maintenance	43,276	12,858	12,858	68,992
Marketing	396	26,865	2,707	29,968
Meetings	1,258	617	45,573	47,448
Museum and historical support	531,188	-	-	531,188
Museum expenses - LLC	113,559	-	-	113,559
Office expense	21,051	3,845	33,140	58,036
Postage and shipping	34,627	10,601	7,694	52,922
Printing	106	9,465	5,872	15,443
Professional fees	25,040	340	80,057	105,437
Rent	51,717	-	123,907	175,624
Research	-	11,350	-	11,350
Salaries, taxes, and benefits	1,263,781	424,718	625,301	2,313,800
Special events	359,871	-	-	359,871
Staff training	811	1,162	368	2,341
Taxes and licenses	4,806	13,585	312	18,703
Telephone and utilities	98,588	10,304	10,305	119,197
Temporary help	8,299	3,060	447	11,806
Travel	5,528	11,524	965	18,017
USMC Support	17,712	-	-	17,712
Website and internet	39,920	13,885	13,886	67,691
Total	\$ 3,578,555	\$ 2,145,994	\$ 1,299,491	\$ 7,024,040

Marine Corps Heritage Foundation

Consolidating Statement of Financial Position

	December 31, 2010			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Assets				
Cash and cash equivalents	\$ 2,684,364	\$ 621,002	\$ -	\$ 3,305,366
Investments	6,390,419	307,043	-	6,697,462
Investment in LLC	1,571,226	-	(1,571,226)	-
Cash surrender value of life insurance policy	72,447	-	-	72,447
Pledges receivable, net of discount	10,189,915	-	-	10,189,915
Grants receivable	1,429,826	-	-	1,429,826
Retirement plan assets	88,593	-	-	88,593
Accounts receivable	99,908	4,774	-	104,682
Inventory	-	563,696	-	563,696
Due from LLC	6,611	-	(6,611)	-
Construction in progress	4,123,932	-	-	4,123,932
The Heritage Center	70,285,646	-	-	70,285,646
Fixed assets, net	652,970	346,671	-	999,641
Prepaid expenses	68,996	10,009	-	79,005
Deposits	9,189	-	-	9,189
	\$ 97,674,042	\$ 1,853,195	\$ (1,577,837)	\$ 97,949,400
Liabilities and net assets				
Accounts payable and accrued expenses	\$ 926,506	\$ 275,358	\$ -	\$ 1,201,864
Due to Foundation	-	6,611	(6,611)	-
Notes payable	4,304,425	-	-	4,304,425
Line of credit payable	700,000	-	-	700,000
Other payable	81,749	-	-	81,749
Annuities payable	11,434	-	-	11,434
Retirement plan payable	88,593	-	-	88,593
Agency funds	127,478	-	-	127,478
Total liabilities	6,240,185	281,969	(6,611)	6,515,543
Net assets/retained earnings:				
Unrestricted net assets	8,873,062	-	-	8,873,062
Retained earnings	-	1,571,226	(1,571,226)	-
Temporarily restricted net assets	82,028,864	-	-	82,028,864
Permanently restricted net assets	531,931	-	-	531,931
Total net assets/retained earnings	91,433,857	1,571,226	(1,571,226)	91,433,857
Total liabilities and net assets	\$ 97,674,042	\$ 1,853,195	\$ (1,577,837)	\$ 97,949,400

Marine Corps Heritage Foundation
Consolidating Statement of Activities

	Year ended December 31, 2010			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Change in unrestricted net assets/retained earnings:				
Revenues, gains, and other support				
Net sales	\$ -	\$ 2,616,762	\$ -	\$ 2,616,762
Less: Cost of sales	-	(1,188,425)	-	(1,188,425)
Total gross profit on sales	-	1,428,337	-	1,428,337
Contributions	4,063,679	78,266	-	4,141,945
Special events	283,230	239,993	-	523,223
Program revenue	-	112,851	-	112,851
Other income	7,577	110,727	-	118,304
Interest and dividends	124,499	5,726	-	130,225
Interest in the earnings of the LLC	351,475	-	(351,475)	-
Net assets released from restrictions	4,275,057	-	-	4,275,057
Total revenue	9,105,517	1,975,900	(351,475)	10,729,942
Expenses				
Program services	2,894,021	1,477,341	-	4,371,362
Fundraising	2,296,063	-	-	2,296,063
General and administrative	1,431,718	147,083	-	1,578,801
Total expenses	6,621,802	1,624,424	-	8,246,226
Change in unrestricted net assets before change in fair value of investments and realized losses	2,483,716	-	-	2,483,716
Change in fair value of investments	93,634	-	-	93,634
Realized loss on investments	(16,139)	-	-	(16,139)
Change in unrestricted net assets/retained earnings	2,561,211	-	-	2,561,211
Change in temporarily restricted net assets:				
Contributions	6,377,333	-	-	6,377,333
Grant revenue	2,430,327	-	-	2,430,327
Change in fair value of investments	205,355	-	-	205,355
Interest and dividends	43,490	-	-	43,490
Net assets released from restrictions	(4,275,057)	-	-	(4,275,057)
Change in temporarily restricted net assets	4,781,448	-	-	4,781,448
Change in permanently restricted net assets:				
Contributions	100,000	-	-	100,000
Change in temporarily restricted net assets	100,000	-	-	100,000
Change in net assets/retained earnings	7,442,659	351,475	(351,475)	7,442,659
Net assets/member's equity, beginning of year	83,991,198	1,219,751	(1,219,751)	83,991,198
Net assets/member's equity, end of year	<u>\$ 91,433,857</u>	<u>\$ 1,571,226</u>	<u>\$ (1,571,226)</u>	<u>\$ 91,433,857</u>