

# Marine Corps Heritage Foundation and Affiliate

## Consolidated Audited Financial Statements and Other Financial Information

*Year ended December 31, 2019*

*with Report of Independent Auditors*

Marine Corps Heritage Foundation  
and Affiliate

Consolidated Audited Financial Statements  
and Other Financial Information

Year ended December 31, 2019

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## Report of Independent Auditors

Board of Directors  
Marine Corps Heritage Foundation  
Triangle, Virginia

We have audited the accompanying consolidated financial statements of Marine Corps Heritage Foundation and Affiliate (the Foundation) which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 over financial reporting. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2019 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statement of Financial Position as of December 31, 2019, and Consolidating Statement of Activities for the year then ended, 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 27, 2020

Marine Corps Heritage Foundation  
and Affiliate

Consolidated Statement of Financial Position

December 31, 2019

**Assets**

Cash and cash equivalents	\$	3,639,180
Investments		18,505,608
Accounts receivable		60,833
Pledges receivable, net		5,131,137
Prepaid expenses		191,028
Heritage Center, net		75,859,405
Construction in progress		23,792,558
Fixed assets, net		831,080
Cash surrender value of life insurance policies		122,441
Retirement plan assets		<u>431,813</u>
Total assets	\$	<u>128,565,083</u>

**Liabilities and net assets**

Liabilities:

Accounts payable and accrued expenses	\$	404,021
Notes payable		5,585,427
Retirement plan liabilities		<u>431,813</u>
Total liabilities		6,421,261

Net assets:

Without donor restrictions		120,022,518
With donor restrictions		<u>2,121,304</u>
Total net assets		<u>122,143,822</u>
Total liabilities and net assets	\$	<u>128,565,083</u>

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation  
and Affiliate

Consolidated Statement of Activities

Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains and other support</b>			
Contributions	\$ 10,306,854	\$ 156,830	\$ 10,463,684
Museum gift shop income	341,249	-	341,249
Theater/rifle range revenue	189,277	-	189,277
Other revenue	184,160	-	184,160
Special events	152,082	-	152,082
In-kind support	56,800	-	56,800
Investment income, net	304,013	46,788	350,801
Net assets released from restrictions	<u>238,218</u>	<u>(238,218)</u>	<u>-</u>
Total revenue, gains and other support	11,772,653	(34,600)	11,738,053
<b>Expenses</b>			
Program services:			
Museum & Heritage Center	8,599,234	-	8,599,234
Marine Corps University History Division	247,002	-	247,002
Other historical support	<u>445,617</u>	<u>-</u>	<u>445,617</u>
Total program services	9,291,853	-	9,291,853
Supporting services:			
Fundraising	2,241,996	-	2,241,996
General and administrative	<u>896,991</u>	<u>-</u>	<u>896,991</u>
Total supporting services	<u>3,138,987</u>	<u>-</u>	<u>3,138,987</u>
Total expenses	<u>12,430,840</u>	<u>-</u>	<u>12,430,840</u>
Change in net assets, before change in fair value of investments	(658,187)	(34,600)	(692,787)
Change in fair value of investments	<u>416,230</u>	<u>40,794</u>	<u>457,024</u>
Change in net assets	(241,957)	6,194	(235,763)
Net assets, beginning of year	<u>120,264,475</u>	<u>2,115,110</u>	<u>122,379,585</u>
Net assets, end of year	<u>\$ 120,022,518</u>	<u>\$ 2,121,304</u>	<u>\$ 122,143,822</u>

See accompanying notes to the consolidated financial statements.

# Marine Corps Heritage Foundation and Affiliate

## Consolidated Statement of Functional Expenses

Year ended December 31, 2019

	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	\$ 15,019	\$ 1,486	\$ 2,808	\$ 19,313	\$ 23,168	\$ 13,522	\$ 36,690	\$ 56,003
Advertising	176,880	-	-	176,880	353	45	398	177,278
Awards	-	-	36,306	36,306	-	-	-	36,306
Bank charges	3,748	-	-	3,748	-	11,861	11,861	15,609
Bad debt	-	-	-	-	2,836	-	2,836	2,836
Consulting	179,493	-	-	179,493	218,629	-	218,629	398,122
Credit card fees	34,339	-	-	34,339	24,909	24,909	49,818	84,157
Depreciation	194,067	981	1,854	196,902	15,295	8,927	24,222	221,124
Depreciation - Heritage Center	5,144,440	-	-	5,144,440	-	-	-	5,144,440
Direct marketing	605,160	-	45,550	650,710	1,171,277	347,045	1,518,322	2,169,032
Dues and subscriptions	10,743	-	-	10,743	1,034	524	1,558	12,301
Educational support	115,411	-	-	115,411	-	-	-	115,411
Facilities development	145,542	-	-	145,542	-	-	-	145,542
Gifts	-	-	-	-	-	632	632	632
Insurance	75,732	-	-	75,732	-	19,365	19,365	95,097
Interest	219,926	-	-	219,926	-	-	-	219,926
Maintenance	143,388	701	1,325	145,414	124,162	37,097	161,259	306,673
Marketing	32,573	16,076	16,076	64,725	48,716	-	48,716	113,441
Meetings	3,788	-	-	3,788	771	31,750	32,521	36,309
Museum and historical support	372,649	38,288	92,859	503,796	-	-	-	503,796
Museum expenses - LLC	31,097	-	-	31,097	-	-	-	31,097
Office expense	6,461	-	-	6,461	772	13,528	14,300	20,761
Postage and shipping	600	-	-	600	6,281	5,317	11,598	12,198
Printing	3,827	-	-	3,827	2,009	-	2,009	5,836
Professional fees	14,063	-	-	14,063	-	6,043	6,043	20,106
Salaries, taxes, and benefits - Foundation	627,991	36,532	69,004	733,527	571,696	344,769	916,465	1,649,992
Salaries, taxes, and benefits - Museum, History Division, and Band Support	283,590	150,823	18,072	452,485	-	-	-	452,485
Special events	4,452	-	152,497	156,949	-	-	-	156,949
Staff training	-	-	-	-	1,825	2,660	4,485	4,485
Taxes and licenses	39,464	-	-	39,464	16,863	5,667	22,530	61,994
Telephone and utilities	94,413	716	1,353	96,482	7,960	19,730	27,690	124,172
Temporary help	-	-	-	-	-	1,140	1,140	1,140
Travel	8,871	-	-	8,871	2,356	1,376	3,732	12,603
USMC Support	-	-	5,270	5,270	-	-	-	5,270
Website and internet	11,507	1,399	2,643	15,549	1,084	1,084	2,168	17,717
<b>Total</b>	<b>\$ 8,599,234</b>	<b>\$ 247,002</b>	<b>\$ 445,617</b>	<b>\$ 9,291,853</b>	<b>\$ 2,241,996</b>	<b>\$ 896,991</b>	<b>\$ 3,138,987</b>	<b>\$ 12,430,840</b>

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation  
and Affiliate

Consolidated Statement of Cash Flows

December 31, 2019

<b>Cash flows from operating activities</b>	
Change in net assets	\$ (235,763)
Adjustments to reconcile change in net assets to net cash provided by/(used in)	
operating activities:	
Depreciation	5,365,564
Receipt of donated stock	(812,130)
Change in fair value of investments	(457,024)
Change in pledges allowance and discount	(79,177)
Changes in operating assets and liabilities:	
Accounts receivable	280,814
Pledges receivable	1,462,125
Prepaid expenses	7,507
Retirement plan assets	(100,459)
Accounts payable and accrued expenses	(51,467)
Retirement plan liability	100,459
Net cash provided by operating activities	<u>5,480,449</u>
<b>Cash flows from investing activities</b>	
Purchases of investments	(6,955,467)
Proceeds from sales of investments	4,387,452
Purchases of fixed assets	<u>(78,127)</u>
Net cash used in investing activities	(2,646,142)
<b>Cash flows from financing activities</b>	
Payments on notes payable	<u>(1,861,809)</u>
Net cash used in financing activities	<u>(1,861,809)</u>
<b>Net change in cash and cash equivalents</b>	972,498
Cash and cash equivalents, beginning of year	<u>2,666,682</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 3,639,180</u></u>
<b>Supplemental disclosures of cash flow information</b>	
Cash paid in the year for loan interest	<u><u>\$ 230,062</u></u>

See accompanying notes to the consolidated financial statements.



# Marine Corps Heritage Foundation and Affiliate

## Notes to Consolidated Financial Statements

Year ended December 31, 2019

### **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 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 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. In February 2015, the LLC outsourced its retail operations to a third party vendor. 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 distributed to the Foundation \$150,000 in 2019, which is eliminated upon consolidation.

Marine Corps Heritage Foundation  
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Notes to Consolidated Financial Statements (Continued)

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

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.

*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.

*Recent Accounting Pronouncements Adopted*

As of January 1, 2019, the Foundation adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made (topic 958)*. The Foundation has elected to apply the modified prospective application to adopt the new standard. The amendments in this standard provided for (1) the evaluation of whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) the determination of whether a contribution is conditional. There were no material changes in the accounting and timing of recognition of revenue and therefore no material impact to the consolidated financial statements upon adoption.

Marine Corps Heritage Foundation  
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Notes to Consolidated Financial Statements (Continued)

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

*Recent Accounting Pronouncements Adopted (continued)*

As of January 1, 2019, the Foundation adopted the provisions of ASU 2014-09, *Revenue from Contracts with Customers - Topic 606* and all subsequent ASUs that modified ASC 2014-09. The Foundation has elected to apply the modified retrospective application to adopt the new standard. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. There were no material changes in the accounting and timing of recognition of revenue and therefore no material impact to the consolidated financial statements upon adoption. The adoption of this standard did result in expanded disclosures, specifically the revenue recognition accounting policies.

*Subsequent Events*

The Foundation has performed an evaluation of subsequent events through April 27, 2020, 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. See Note O - Subsequent Events for further information.

*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, 2019.

*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 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  
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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 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  
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Notes to Consolidated Financial Statements (Continued)

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

*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 estimated to be 2022.

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, 2019, there were no impairments recognized.

*Construction in Progress*

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  
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Notes to Consolidated Financial Statements (Continued)

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

*Collections*

The Foundation's collections are made up of monuments located in Semper Fidelis Memorial Park and are held for public exhibition. Each of the collection items is cataloged, preserved, and cared for, and 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. The contributed collections are not recognized as assets on the statement of financial position, and are valued at approximately three million dollars as of December 31, 2019. Management has evaluated their collection items to determine if any impairment adjustments are necessary, and has concluded that no impairments need to be recognized for the year ended December 31, 2019.

*Revenue Recognition*

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 contribution is reported as without donor restrictions if a restriction is fulfilled in the same time period in which the contribution is received.

Museum gift shop

The Museum has a gift shop which carries Marine themed clothing, collectables, books and toys. The Foundation entered into an agreement with a third party vendor to administer the gift shop. The agreement provides for the third party vendor to pay the Foundation a base rent for overhead costs and percentage rent based on receipts of the gift shop each month. Retail revenue from the gift shop is recognized at a point in time, when monthly sales totals are known. Rental revenue is recognized on a monthly basis when earned.

Theater and rifle range

The Museum has a Medal of Honor Theater (theater) and a M-16 Laser Simulated Rifle Range (rifle range) which is an indoor exhibit representing a shooting range. Revenue generated from the theater and rifle range consists of admissions fees. The performance obligation is admission to the theater or rifle range. Revenue from the theater and rifle range is recognized upon admission, or upon passage of the date on the admission ticket if the ticket is not redeemed. Theater and rifle range tickets are typically purchased by a visitor on the day of Museum visit and are only refundable prior to admission being provided. Pre-ordered ticket revenue is recognized on the planned admission date, regardless of when tickets are purchased. Once admission has been provided, or the admission date on the ticket has passed, tickets are non-refundable.

Marine Corps Heritage Foundation  
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Notes to Consolidated Financial Statements (Continued)

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

*Revenue and Revenue Recognition (continued)*

Other revenue

Other revenue primarily consists of the revenue generated from the restaurants within the Museum and catering for special events. The restaurants are run by a third party administrator, who pays the Foundation a percentage of sales for food and beverages sold throughout the year. Revenue from the restaurants and catering is recorded at a point in time, at the end of the month in which food and beverages are sold. The performance obligation for restaurant revenue is the delivery of food or beverages to customers. Meals at the restaurants and catering services provided are non-refundable.

Special events

Special event revenue is recognized at a point in time when a space at the Heritage Center or museum is used by an individual (or group) to host an event. The performance obligation for special events is allowing the host to conduct an event using the space purchased. A deposit for 50% of the space rental amount is due in advance, with the remainder due by the day of the event. Refunds are not allowed on the deposits, however, a host may reschedule the date of the event if they wish to do so. Amounts collected in advance of an event are initially recognized as liabilities (deferred revenue) and are only recognized in the consolidated statement of activity after the event takes place or is cancelled.

*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 rates which range from .17% 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  
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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*

Fair value approximates carrying value, due to the interest rate pricing on notes payable. 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 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. 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. Other 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.



Marine Corps Heritage Foundation  
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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, 2019
Cash and cash equivalents	\$ 3,561,046
Investments	10,389,458
Accounts receivable	764
Pledges receivable	1,164,711
	<u>\$ 15,115,979</u>

The Foundation is substantially supported by contributions with no 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, CDs, 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 some certificates of deposit held by the Foundation, which serve as collateral for the Foundation's loan agreement with Navy Federal Credit Union.

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.

Marine Corps Heritage Foundation  
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Notes to Consolidated Financial Statements (Continued)

**Note B - Liquidity and Availability of Resources (Continued)**

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

**Note C - Pledges Receivable**

Pledges receivable consist of the following in 2019

Amounts due in:

Less than one year	\$ 1,164,710
One to five years	3,588,398
More than five years	<u>870,675</u>
Total pledges	5,623,783
Less allowance and discount	<u>(492,646)</u>
Pledges net of allowance and discount	<u><u>\$ 5,131,137</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:

	Level 1	Level 2	Level 3	Net Asset Value As Practical Expedient	Total
Investments					
Mutual funds	\$ 5,873,389	\$ -	\$ -	\$ -	\$ 5,873,389
Exchange traded funds	2,292,017	-	-	-	2,292,017
Certificates of deposit	-	-	-	10,253,352	10,253,352
Hedge funds	-	-	-	<u>86,850</u>	<u>86,850</u>
Total investments	<u><u>\$ 8,165,406</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$10,340,202</u></u>	<u><u>\$18,505,608</u></u>

The Foundation's alternative investments consist primarily of two hedge funds (Funds), whose values are derived from the Fund's net asset value. The Foundation may redeem some or all of its shares in the Funds as of the last business day of any calendar quarter. Written notice to redeem all or part of its capital interest must be received by the Funds at least sixty days prior to the date of redemption. Redemptions can be done in increments of \$10,000, provided that the greater of \$50,000 or twenty percent of the Foundation's initial investment remains in the 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.

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Notes to Consolidated Financial Statements (Continued)

**Note D - Investments and Fair Value Measurements (Continued)**

Retirement plan assets totaling \$431,813 at December 31, 2019 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 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, 2019. There were no amounts received during 2019 from this split-interest agreement.

**Note E - Fixed Assets**

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

	December 31, 2019
Equipment and software	\$ 2,311,246
Furniture and fixtures	287,598
	<u>2,598,844</u>
Accumulated depreciation	(1,767,764)
Fixed assets, net	<u>\$ 831,080</u>

**Note F - Heritage Center**

The Heritage Center consists of the following at December 31:

	December 31, 2019
National Museum USMC	\$ 87,768,385
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	497,137
	<u>121,093,497</u>
Accumulated depreciation	(45,234,092)
Heritage Center, net	<u>\$ 75,859,405</u>

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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:

	December 31, 2019
Subject to expenditure for specified purpose	
Educational programs	\$ 981,165
Support programs	65,620
	1,046,785
Endowments to be held in perpetuity	
Grants and fellowships	423,598
Educational programs	100,000
	523,598
Subject to endowment spending policy and appropriation:	
Grants and fellowships	550,921
	\$ 2,121,304

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

	December 31, 2019
Satisfaction of purpose restrictions:	
Awards	\$ 163,539
Support programs	21,679
Grants and fellowships	3,000
Education	50,000
	\$ 238,218

**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.

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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, 2019, 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, 2019, 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>550,921</u>
	<u>\$ 1,074,519</u>

Marine Corps Heritage Foundation  
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Notes to Consolidated Financial Statements (Continued)

**Note H - Endowment (Continued)**

*Interpretation of Relevant Law (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. At December 31, 2019, funds with original gift values of \$523,598 had a fair value of of \$1,074,519. There were no deficiencies in donor-restricted endowment funds as of December 31, 2019, and thus, there has been no action taken by the Foundation during 2019 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, 2019 are as follows:

<u>With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$ 1,026,931
Investment return, net	28,387
Net realized and unrealized loss	28,030
Expenditure appropriations	<u>(8,829)</u>
Endowment net assets December 31, 2019	<u>\$ 1,074,519</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 matures on May 1, 2022. Loan principal payments amounted to \$1,861,809 for the year ended December 31, 2019.

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Notes to Consolidated Financial Statements (Continued)

**Note I - Notes Payable (Continued)**

Interest accrued on the unpaid principal balance of this loan at the rate of 4.00% until April 13, 2017. After that time, interest accrued 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, 2019, total interest costs incurred amounted to \$219,926. Interest was expensed as incurred during 2019.

**Note J - Retirement Plans**

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. 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, 2019 was \$80,607.

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 \$431,813 for the year ended December 31, 2019. 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 with the ability to renew 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, 2019, the Foundation has no intentions to terminate the agreement.

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Notes to Consolidated Financial Statements (Continued)

**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 2019, the Foundation incurred joint costs of \$2,169,032 for informational materials and activities that included fundraising appeals. Of these costs, \$650,710 were allocated to program services, \$1,171,277 and \$347,045 were allocated to fundraising and general and administrative, respectively.

**Note M - Related Party Transactions**

The consolidated statement of financial position includes \$398,000 in outstanding pledges receivable as of December 31, 2019, from members of the Foundation's Board of Directors. There was no revenue recognized from these members in 2019.

**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). Total in-kind support consisted of investment management services in the amount of \$56,800 for the year ended December 31, 2019.

**Note O - Subsequent Events**

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19). In March 2020, the WHO classified the COVID-19 as a pandemic, based on the rapid increase in exposure globally.

The Foundation's operations are heavily dependent on donations from individuals, foundations and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global recession. This situation is expected to decrease donations during fiscal year 2020. In addition, the Museum is temporarily closed as of March 14, 2020. The temporary closure of the Museum is expected to decrease corresponding revenue streams such as museum gift shop income, theater, rifle range, special events, and other revenue.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Foundation's financial condition, liquidity, and future results of operations. The Foundation is actively monitoring the global situation.



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Consolidating Statement of Financial Position

	December 31, 2019			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 3,561,046	\$ 78,134	\$ -	\$ 3,639,180
Investments	18,505,608	-	-	18,505,608
Investment in LLC	741,585	-	(741,585)	-
Accounts receivable	764	60,069	-	60,833
Pledges receivable, net	5,131,137	-	-	5,131,137
Due (to) from Foundation	-	(11,180)	11,180	-
Prepaid expenses	184,766	6,262	-	191,028
Heritage Center, net	75,859,405	-	-	75,859,405
Construction in progress	23,792,558	-	-	23,792,558
Fixed assets, net	153,901	677,179	-	831,080
Cash surrender value of life insurance policies	122,441	-	-	122,441
Retirement plan assets	431,813	-	-	431,813
Total assets	<u>\$ 128,485,024</u>	<u>\$ 810,464</u>	<u>\$ (730,405)</u>	<u>\$ 128,565,083</u>
<b>Liabilities and net assets</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 335,142	\$ 68,879	\$ -	\$ 404,021
Due to (from) LLC	(11,180)	-	11,180	-
Notes payable	5,585,427	-	-	5,585,427
Retirement plan liabilities	431,813	-	-	431,813
Total liabilities	6,341,202	68,879	11,180	6,421,261
Net assets:				
Without donor restrictions	120,022,518	741,585	(741,585)	120,022,518
With donor restrictions	2,121,304	-	-	2,121,304
Total net assets	<u>122,143,822</u>	<u>741,585</u>	<u>(741,585)</u>	<u>122,143,822</u>
Total liabilities and net assets	<u>\$ 128,485,024</u>	<u>\$ 810,464</u>	<u>\$ (730,405)</u>	<u>\$ 128,565,083</u>

Marine Corps Heritage Foundation  
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Consolidating Statement of Activities

	Year ended December 31, 2019					
	Foundation: Without Donor Restrictions	Foundation: With Donor Restrictions	Foundation Total	Heritage Center, LLC	Reclassifications & Eliminations	Total
<b>Revenues, gains and other support</b>						
Contributions	\$ 10,282,133	\$ 156,830	\$ 10,438,963	\$ 24,721	\$ -	\$ 10,463,684
Museum gift shop income	-	-	-	341,249	-	341,249
Theater/rifle range revenue	-	-	-	189,277	-	189,277
Other revenue	47,614	-	47,614	182,446	(45,900)	184,160
Special events	-	-	-	152,082	-	152,082
In-kind support	56,800	-	56,800	-	-	56,800
Investment income, net	303,539	46,788	350,327	474	-	350,801
Net assets released from restrictions	238,218	(238,218)	-	-	-	-
Total revenue, gains, and other support	10,928,304	(34,600)	10,893,704	890,249	(45,900)	11,738,053
<b>Expenses</b>						
Program services:						
Museum & Heritage Center	7,702,035	-	7,702,035	943,099	(45,900)	8,599,234
Marine Corps University History Division	247,002	-	247,002	-	-	247,002
Other historical support	445,617	-	445,617	-	-	445,617
Total program services	8,394,654	-	8,394,654	943,099	(45,900)	9,291,853
Supporting services:						
Fundraising	2,241,996	-	2,241,996	-	-	2,241,996
General and administrative	896,991	-	896,991	-	-	896,991
Total supporting services	3,138,987	-	3,138,987	-	-	3,138,987
Total expenses	11,533,641	-	11,533,641	943,099	(45,900)	12,430,840
Change in net assets, before change in fair value of investments and LLC distribution	(605,337)	(34,600)	(639,937)	(52,850)	-	(692,787)
Change in fair value of investments	416,230	40,794	457,024	-	-	457,024
LLC net loss	(202,850)	-	(202,850)	-	202,850	-
Change in net assets before distribution	(391,957)	6,194	(385,763)	(52,850)	202,850	(235,763)
LLC distribution	150,000	-	150,000	(150,000)	-	-
Change in net assets	(241,957)	6,194	(235,763)	(202,850)	202,850	(235,763)
Net assets, beginning of year	120,264,475	2,115,110	122,379,585	944,435	(944,435)	122,379,585
Net assets, end of year	\$ 120,022,518	\$ 2,121,304	\$ 122,143,822	\$ 741,585	\$ (741,585)	\$ 122,143,822