

Marine Corps Heritage Foundation and Affiliate

Consolidated Audited Financial Statements and Other Financial Information

*Year ended December 31, 2020
with Report of Independent Auditors*

Marine Corps Heritage Foundation
and Affiliate

Consolidated Audited Financial Statements
and Other Financial Information

Year ended December 31, 2020

Contents

Report of Independent Auditors.....	1 - 2
Consolidated Audited Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7 - 21
Other Financial Information	
Consolidating Schedule of Financial Position - 2020.....	22
Consolidating Schedule of Activities - 2020.....	23

Report of Independent Auditors

Board of Directors
Marine Corps Heritage Foundation
Triangle, Virginia

We have audited the accompanying consolidated financial statements of the Marine Corps Heritage Foundation and Affiliate (the Foundation) which comprise the consolidated statement of financial position as of December 31, 2020, 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.

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, 2020 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 Schedule of Financial Position and Consolidating Schedule of Activities on pages 22 - 23 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 16, 2021

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statement of Financial Position

December 31, 2020

Assets

Cash and cash equivalents	\$	4,206,050
Investments		20,340,297
Accounts receivable		248,114
Pledges receivable, net		3,506,816
Prepaid expenses		223,503
Heritage Center, net		73,424,601
Construction in progress		21,538,141
Fixed assets, net		674,707
Cash surrender value of life insurance policies		120,467
Retirement plan assets		<u>457,231</u>
Total assets	\$	<u>124,739,927</u>

Liabilities and net assets

Liabilities:

Accounts payable and accrued expenses	\$	656,483
Notes payable		3,723,618
Retirement plan liabilities		<u>457,231</u>
Total liabilities		4,837,332

Net assets:

Without donor restrictions		117,770,299
With donor restrictions		<u>2,132,296</u>
Total net assets		<u>119,902,595</u>
Total liabilities and net assets	\$	<u>124,739,927</u>

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statement of Activities

Year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions	\$ 8,309,138	\$ 93,760	\$ 8,402,898
Museum gift shop income	102,979	-	102,979
Theater/rifle range revenue	25,062	-	25,062
Other revenue	160,250	-	160,250
Special events	43,005	-	43,005
In-kind support	38,429	-	38,429
Investment income, net	276,818	46,644	323,462
Net assets released from restrictions	<u>223,964</u>	<u>(223,964)</u>	<u>-</u>
Total revenue, gains and other support	9,179,645	(83,560)	9,096,085
Expenses			
Program services:			
Museum & Heritage Center	8,282,942	-	8,282,942
Marine Corps University History Division	256,657	-	256,657
Other historical support	<u>322,860</u>	<u>-</u>	<u>322,860</u>
Total program services	8,862,459	-	8,862,459
Supporting services:			
Fundraising	2,339,455	-	2,339,455
General and administrative	<u>934,479</u>	<u>-</u>	<u>934,479</u>
Total supporting services	<u>3,273,934</u>	<u>-</u>	<u>3,273,934</u>
Total expenses:	<u>12,136,393</u>	<u>-</u>	<u>12,136,393</u>
Change in net assets, before change in fair value of investments	(2,956,748)	(83,560)	(3,040,308)
Change in fair value of investments	<u>704,529</u>	<u>94,552</u>	<u>799,081</u>
Change in net assets	(2,252,219)	10,992	(2,241,227)
Net assets, beginning of year	<u>120,022,518</u>	<u>2,121,304</u>	<u>122,143,822</u>
Net assets, end of year	<u>\$ 117,770,299</u>	<u>\$ 2,132,296</u>	<u>\$ 119,902,595</u>

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation and Affiliate

Consolidated Statement of Functional Expenses

Year ended December 31, 2020

	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	\$ 12,947	\$ 1,392	\$ 2,088	\$ 16,427	\$ 22,469	\$ 11,299	\$ 33,768	\$ 50,195
Advertising	97,031	-	-	97,031	33	280	313	97,344
Awards	-	-	36,406	36,406	-	-	-	36,406
Bank charges	2,284	-	-	2,284	-	14,211	14,211	16,495
Bad debt	-	-	-	-	9,000	-	9,000	9,000
Consulting	187,304	-	-	187,304	229,600	5,086	234,686	421,990
Credit card fees	29,108	-	-	29,108	25,253	25,253	50,506	79,614
Depreciation	190,899	978	1,467	193,344	15,792	7,941	23,733	217,077
Depreciation - Heritage Center	5,244,896	-	-	5,244,896	-	-	-	5,244,896
Direct marketing	667,702	-	-	667,702	1,179,607	378,364	1,557,971	2,225,673
Dues and subscriptions	24,517	-	-	24,517	1,682	312	1,994	26,511
Educational support	96,868	-	-	96,868	-	-	-	96,868
Facilities development	187,473	-	-	187,473	-	-	-	187,473
Gifts	-	-	-	-	-	5,026	5,026	5,026
Insurance	75,709	-	-	75,709	-	19,839	19,839	95,548
Interest	154,400	-	-	154,400	-	-	-	154,400
Maintenance	133,775	678	1,017	135,470	81,194	37,860	119,054	254,524
Marketing	21,004	14,018	14,018	49,040	42,097	-	42,097	91,137
Meetings	200	-	-	200	102	3,875	3,977	4,177
Museum and historical support	126,434	62,549	134,820	323,803	-	-	-	323,803
Museum expenses - LLC	4,473	-	-	4,473	-	-	-	4,473
Office expense	6,151	-	-	6,151	1,749	28,698	30,447	36,598
Postage and shipping	134	-	-	134	7,182	4,793	11,975	12,109
Printing	1,207	-	-	1,207	2,580	-	2,580	3,787
Professional fees	6,344	459	92	6,895	1,246	3,206	4,452	11,347
Salaries, taxes, and benefits - Foundation	634,577	42,650	63,975	741,202	693,068	358,454	1,051,522	1,792,724
Salaries, taxes, and benefits - Museum, History Division, and Band Support	229,369	131,644	23,270	384,283	-	-	-	384,283
Special events	1,879	-	17,295	19,174	-	-	-	19,174
Staff training	40	-	-	40	-	2,567	2,567	2,607
Taxes and licenses	29,221	-	-	29,221	15,779	4,111	19,890	49,111
Telephone and utilities	105,181	828	1,242	107,251	8,037	21,952	29,989	137,240
Temporary help	-	-	-	-	-	-	-	-
Travel	858	-	-	858	1,672	39	1,711	2,569
USMC Support	-	-	24,979	24,979	-	-	-	24,979
Website and internet	10,957	1,461	2,191	14,609	1,313	1,313	2,626	17,235
Total	\$ 8,282,942	\$ 256,657	\$ 322,860	\$ 8,862,459	\$ 2,339,455	\$ 934,479	\$ 3,273,934	\$ 12,136,393

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
and Affiliate

Consolidated Statement of Cash Flows

Year ended December 31, 2020

Cash flows from operating activities	
Change in net assets	\$ (2,241,227)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,461,973
Receipt of donated stock	(405,964)
Change in fair value of investments	(799,081)
Change in pledges allowance and discount	(147,070)
Changes in operating assets and liabilities:	
Accounts receivable	(187,281)
Pledges receivable	1,771,391
Prepaid expenses	(32,475)
Retirement plan assets	(25,418)
Accounts payable and accrued expenses	252,462
Retirement plan liabilities	<u>25,418</u>
Net cash provided by operating activities	3,672,728
Cash flows from investing activities	
Purchases of investments	(32,628,359)
Proceeds from sales of investments	32,000,690
Purchases of fixed assets	<u>(616,380)</u>
Net cash used in investing activities	(1,244,049)
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	566,870
Cash and cash equivalents, beginning of year	<u>3,639,180</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,206,050</u></u>
Supplemental disclosures of cash flow information	
Cash paid in the year for loan interest	<u><u>\$ 164,537</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, 2020

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 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. 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 did not distribute any funds to the Foundation in 2020.

Marine Corps Heritage Foundation
and Affiliate

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.

Subsequent Events

The Foundation has performed an evaluation of subsequent events through April 16, 2021, 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, 2020.

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements (Continued)

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

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.

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.

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 (continued)

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.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. 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 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.

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements (Continued)

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

Heritage Center (continued)

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, 2020, 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.

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 United States Marine Corps 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 three million dollars as of December 31, 2020.

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.

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements (Continued)

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

Contributions (continued)

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, 2020. There were no amounts received during 2020 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 .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.

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.

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements (Continued)

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

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 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.

Recent Accounting Pronouncements Adopted

As of January 1, 2020, the Foundation adopted the provisions of Accounting Standards Updates (ASU) 2019-03, Not-for-Profit Entities (topic 958): *Updating the Definition of Collections*. The Foundation has adopted this ASU and applied its requirements prospectively as required by the standard. The ASU modifies the definition of collections and requires a collection-holding entity to disclose its policy for the use of proceeds from when collection items are deaccessioned. There were no material changes in the accounting treatment of collections and therefore no material impact to the consolidated financial statements upon adoption. The adoption of this standard did result in expanded disclosures related to collections.

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,
	<u>2020</u>
Cash and cash equivalents	\$ 3,790,382
Investments	16,462,836
Accounts receivable	232,137
Pledges receivable	<u>1,183,356</u>
	<u>\$ 21,668,711</u>

Marine Corps Heritage Foundation
and Affiliate

Notes to Consolidated Financial Statements (Continued)

Note B - Liquidity and Availability of Resources (Continued)

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, 2020:

Amounts due in:	
Less than one year	\$ 1,183,356
One to five years	1,936,386
More than five years	<u>732,650</u>
Total pledges	3,852,392
Less allowance and discount	<u>(345,576)</u>
Pledges net of allowance and discount	<u><u>\$ 3,506,816</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, 2020:

	Level 1	Level 2	Level 3	Net Asset Value As Practical Expedient	Total
Mutual funds	\$ 3,874,639	\$ -	\$ -	\$ -	\$ 3,874,639
Exchange traded funds	3,228,839	-	-	-	3,228,839
Common stock	1,117,398	-	-	-	1,117,398
Corporate bonds	-	4,303,544	-	-	4,303,544
Pooled investment fund	-	-	-	286,419	286,419
Hedge funds	-	-	-	75,944	75,944
Total investments held at fair value	<u>\$ 8,220,876</u>	<u>\$ 4,303,544</u>	<u>\$ -</u>	<u>\$ 362,363</u>	<u>\$ 12,886,783</u>
Money market funds					3,846,803
Certificates of deposit					<u>3,606,711</u>
Total investments					<u><u>\$ 20,340,297</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 \$457,231 at December 31, 2020 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, 2020, new pledges received and assessed at a Level 3 fair value were \$598,914.

Note E - Fixed Assets

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

	December 31, 2020
Equipment and software	\$ 2,349,817
Furniture and fixtures	282,339
	2,632,156
Accumulated depreciation	(1,957,449)
Fixed assets, net	\$ 674,707

Note F - Heritage Center

The Heritage Center consists of the following at December 31:

	December 31, 2020
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	497,137
	123,903,588
Accumulated depreciation	(50,478,987)
Heritage Center, net	\$ 73,424,601

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:

	December 31, 2020
Subject to expenditure for specified purpose	
Educational programs	\$ 1,001,480
Awards	13,626
Support programs	40,117
	1,055,223
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	553,475
	\$ 2,132,296

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

	December 31, 2020
Satisfaction of purpose restrictions:	
Awards	\$ 53,134
Support programs	68,817
Grants and fellowships	52,013
Education	50,000
	\$ 223,964

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, 2020, 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, 2020, 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>553,475</u>
	<u>\$ 1,077,073</u>

Marine Corps Heritage Foundation
and Affiliate

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. There were no deficiencies in donor-restricted endowment funds as of December 31, 2020, and thus, there has been no action taken by the Foundation during 2020 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, 2020 are as follows:

<u>With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$ 1,074,519
Investment return, net	23,415
Net realized and unrealized gain	47,465
Expenditure appropriations	<u>(68,326)</u>
Endowment net assets December 31, 2020	<u>\$ 1,077,073</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, 2020.

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, 2020, total interest costs incurred amounted to \$154,400. Interest was expensed as incurred during 2020.

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, 2020 was \$81,391.

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 \$457,231 for the year ended December 31, 2020. 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, 2020, the Foundation has no intentions to terminate the agreement.

Marine Corps Heritage Foundation
and Affiliate

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 2020, the Foundation incurred joint costs of \$2,225,673 for informational materials and activities that included fundraising appeals. Of these costs, \$667,702 were allocated to program services, and \$1,179,607 and \$378,364 were allocated to fundraising and general and administrative, respectively.

Note M - Related Party Transactions

The consolidated statement of financial position includes \$287,500 in outstanding pledges receivable as of December 31, 2020, from members of the Foundation's Board of Directors. The Foundation recognized \$128,692 in contribution revenue from these members for the year ended December 31, 2020.

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 investment management services and donated historical materials in the amounts of \$26,000 and \$12,429, respectively, for the year ended December 31, 2020.

Marine Corps Heritage Foundation
and Affiliate

Consolidating Schedule of Financial Position

	December 31, 2020			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Assets				
Cash and cash equivalents	\$ 4,150,670	\$ 55,380	\$ -	\$ 4,206,050
Investments	20,340,297	-	-	20,340,297
Investment in LLC	128,098	-	(128,098)	-
Accounts receivable	232,137	15,977	-	248,114
Pledges receivable, net	3,506,816	-	-	3,506,816
Due from LLC	397,659	-	(397,659)	-
Prepaid expenses	221,089	2,414	-	223,503
Heritage Center, net	73,424,601	-	-	73,424,601
Construction in progress	21,538,141	-	-	21,538,141
Fixed assets, net	159,161	515,546	-	674,707
Cash surrender value of life insurance policies	120,467	-	-	120,467
Retirement plan assets	457,231	-	-	457,231
Total assets	<u>\$ 124,676,367</u>	<u>\$ 589,317</u>	<u>\$ (525,757)</u>	<u>\$ 124,739,927</u>
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 592,923	\$ 63,560	\$ -	\$ 656,483
Due to Foundation	-	397,659	(397,659)	-
Notes payable	3,723,618	-	-	3,723,618
Retirement plan liabilities	<u>457,231</u>	<u>-</u>	<u>-</u>	<u>457,231</u>
Total liabilities	4,773,772	461,219	(397,659)	4,837,332
Net assets:				
Without donor restrictions	117,770,299	128,098	(128,098)	117,770,299
With donor restrictions	<u>2,132,296</u>	<u>-</u>	<u>-</u>	<u>2,132,296</u>
Total net assets	<u>119,902,595</u>	<u>128,098</u>	<u>(128,098)</u>	<u>119,902,595</u>
Total liabilities and net assets	<u>\$ 124,676,367</u>	<u>\$ 589,317</u>	<u>\$ (525,757)</u>	<u>\$ 124,739,927</u>

Marine Corps Heritage Foundation
and Affiliate

Consolidating Schedule of Activities

	Year ended December 31, 2020					
	Foundation: Without Donor Restrictions	Foundation: With Donor Restrictions	Foundation Total	Heritage Center, LLC	Reclassifications & Eliminations	Total
Revenues, gains and other support						
Contributions	\$ 8,304,602	\$ 93,760	\$ 8,398,362	\$ 4,536	\$ -	\$ 8,402,898
Museum gift shop income	-	-	-	102,979	-	102,979
Theater/rifle range revenue	-	-	-	25,062	-	25,062
Other revenue	132,381	-	132,381	27,869	-	160,250
Special events	-	-	-	43,005	-	43,005
In-kind support	38,429	-	38,429	-	-	38,429
Investment income, net	276,498	46,644	323,142	320	-	323,462
Net assets released from restrictions	223,964	(223,964)	-	-	-	-
Total revenue, gains, and other support	<u>8,975,874</u>	<u>(83,560)</u>	<u>8,892,314</u>	<u>203,771</u>	<u>-</u>	<u>9,096,085</u>
Expenses						
Program services:						
Museum & Heritage Center	7,465,684	-	7,465,684	817,258	-	8,282,942
Marine Corps University History Division	256,657	-	256,657	-	-	256,657
Other historical support	322,860	-	322,860	-	-	322,860
Total program services	<u>8,045,201</u>	<u>-</u>	<u>8,045,201</u>	<u>817,258</u>	<u>-</u>	<u>8,862,459</u>
Supporting services:						
Fundraising	2,339,455	-	2,339,455	-	-	2,339,455
General and administrative	934,479	-	934,479	-	-	934,479
Total supporting services	<u>3,273,934</u>	<u>-</u>	<u>3,273,934</u>	<u>-</u>	<u>-</u>	<u>3,273,934</u>
Total expenses	<u>11,319,135</u>	<u>-</u>	<u>11,319,135</u>	<u>817,258</u>	<u>-</u>	<u>12,136,393</u>
Change in net assets, before change in fair value of investments	(2,343,261)	(83,560)	(2,426,821)	(613,487)	-	(3,040,308)
Change in fair value of investments	704,529	94,552	799,081	-	-	799,081
LLC net loss	(613,487)	-	(613,487)	-	613,487	-
Change in net assets	(2,252,219)	10,992	(2,241,227)	(613,487)	613,487	(2,241,227)
Net assets, beginning of year	120,022,518	2,121,304	122,143,822	741,585	(741,585)	122,143,822
Net assets, end of year	<u>\$ 117,770,299</u>	<u>\$ 2,132,296</u>	<u>\$ 119,902,595</u>	<u>\$ 128,098</u>	<u>\$ (128,098)</u>	<u>\$ 119,902,595</u>