

Marines' Memorial Association and Affiliate

Consolidated Financial Report
June 30, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Marines' Memorial Association

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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. 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 consolidated financial position of Marines' Memorial Association and its affiliate as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Statements of Financial Position and Activities

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities 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 audits 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.

RSM US LLP

San Francisco, California
September 20, 2016

Marines' Memorial Association and Affiliate

**Consolidated Statements of Financial Position
June 30, 2016 and 2015**

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 887,524	\$ 1,135,660
Investments, current	1,932,512	1,820,752
Accounts receivable, net of allowance for doubtful accounts of \$3,000 in 2016 and 2015	141,953	181,291
Interest receivable	3,446	3,465
Inventories	214,693	191,925
Prepaid expenses	155,234	231,822
Total current assets	3,335,362	3,564,915
Investments, long-term	614,879	897,170
Property and equipment:		
Land	120,000	120,000
Building and improvements	17,897,348	18,065,289
Furniture and equipment	9,499,225	6,672,095
	27,516,573	24,857,384
Less accumulated depreciation	(17,047,869)	(16,532,457)
	10,468,704	8,324,927
Construction in progress	5,000	2,116,976
Net property and equipment	10,473,704	10,441,903
Total assets	\$ 14,423,945	\$ 14,903,988
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 3,000,000	\$ 2,300,000
Accounts payable	332,555	377,382
Accrued liabilities:		
Salaries and wages	957,608	1,020,812
Taxes other than income	103,879	199,564
Other	262,657	264,141
Deposits	471,333	436,276
Total current liabilities	5,128,032	4,598,175
Accrued severance pay	52,974	52,974
Total liabilities	5,181,006	4,651,149
Commitments and contingencies		
Net assets:		
Unrestricted	8,675,629	9,674,693
Temporarily restricted	567,310	578,146
Total net assets	9,242,939	10,252,839
Total liabilities and net assets	\$ 14,423,945	\$ 14,903,988

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

Consolidated Statements of Activities Years Ended June 30, 2016 and 2015

	2016	2015
Unrestricted revenues and support:		
Rooms	\$ 6,671,020	\$ 6,466,449
Food and beverage	5,051,439	4,818,485
Theatre	499,882	461,726
Memorabilia	53,616	55,721
Space rentals	238,096	235,763
Investment income	79,319	142,771
Contributions	3,143,105	2,737,290
Miscellaneous	246,384	259,791
Net assets released from restriction	289,588	172,774
Total unrestricted revenues and support	16,272,449	15,350,770
Operating expenses:		
Departmental costs and expenses:		
Rooms	3,390,918	3,349,267
Food and beverage	5,137,678	4,840,540
Theatre	442,234	475,327
Memorabilia	37,493	40,540
Other expense	267,743	256,930
Total departmental costs and expenses	9,276,066	8,962,604
Increase before undistributed operating expenses	6,996,383	6,388,166
Undistributed operating expenses:		
Membership, development and fundraising	2,874,541	2,748,357
Administrative and general	1,613,485	1,587,663
Depreciation	1,401,308	1,046,180
Energy costs	594,628	640,533
Advertising	693,074	624,001
Repairs and maintenance	473,069	413,006
Insurance	180,886	178,680
Property taxes	164,456	147,722
Total undistributed operating expenses	7,995,447	7,386,142
Decrease in unrestricted net assets	(999,064)	(997,976)
Changes in temporarily restricted net assets:		
Donations, scholarships	119,275	82,345
Donations, other programs	159,100	68,062
Investment income	377	3,158
Net assets released from restriction, funding of scholarships	(113,870)	(106,667)
Net assets released from restriction, other programs	(175,718)	(66,107)
Decrease in temporarily restricted net assets	(10,836)	(19,209)
Change in net assets	(1,009,900)	(1,017,185)
Net assets, beginning of year	10,252,839	11,270,024
Net assets, end of year	\$ 9,242,939	\$ 10,252,839

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

**Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,009,900)	\$ (1,017,185)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,401,308	1,046,180
Net realized and unrealized loss (gain) on investments	34,186	(31,158)
Stock donations	(6,537)	(1,031)
(Increase) decrease in operating assets:		
Accounts receivable	39,338	120,752
Interest receivable	19	(876)
Inventories	(22,768)	(2,480)
Prepaid expenses	76,588	35,998
Increase (decrease) in operating liabilities:		
Accounts payable	(44,827)	95,778
Accrued salaries and wages	(63,204)	310,684
Accrued taxes other than income	(95,685)	96,465
Accrued other	(1,484)	7,791
Deposits	35,057	(34,403)
Accrued severance	-	(22,615)
Net cash provided by operating activities	342,091	603,900
Cash flows from investing activities:		
Proceeds from sale of investments	289,984	477,704
Purchase of investments	(147,102)	(574,655)
Purchase of property and equipment	(1,433,109)	(2,575,612)
Net cash used in investing activities	(1,290,227)	(2,672,563)
Cash flows from financing activities:		
Borrowings on line of credit	700,000	2,300,000
Net cash provided by financing activities	700,000	2,300,000
Net (decrease) increase in cash and cash equivalents	(248,136)	231,337
Cash and cash equivalents, beginning of year	1,135,660	904,323
Cash and cash equivalents, end of year	\$ 887,524	\$ 1,135,660
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 86,620	\$ 38,716
Supplemental schedule of noncash investing activities:		
Donation of stocks	\$ 6,537	\$ 1,031

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: Marines' Memorial Association is a nonprofit veteran's organization located in San Francisco, California, formed as a tribute to those Marines who have gone before and a service to those who carry on. The United States Marine Corps provided the initial contribution for the establishment of Marines' Memorial Association in 1946. Membership is limited to persons who have honorably served, or are serving, in the Armed Forces of the United States of America. Marines' Memorial Association provides hotel and restaurant services to members and their guests.

Marines' Memorial Foundation (the Foundation) is a nonprofit 501(c)(3) that was established on July 1, 2012 to operate the Foundation located in the hotel and to align the management practices of the Foundation with similar nonprofit performing arts venues and organizations within the Bay Area. The Foundation, formerly known as Marines' Memorial Theatre, changed its name to Marines' Memorial Foundation on November 17, 2015. Through a lease agreement, Marines' Memorial Association leases the operation of the Foundation to Marines' Memorial Foundation.

A summary of significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the operations of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation (collectively referred to as the Association). All significant intercompany balances and transactions have been eliminated in consolidation.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional—that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using an appropriate discount rate to obtain the present value of the receivable amount. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is, when a stipulated time restriction ends or purpose restriction is accomplished—temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of stock are recognized at fair value when received.

Unrestricted donations are recorded in the period received. Individuals are entitled to a benefactor membership designation within the Association for a contribution of \$2,500 or more. These donations are recognized in the period received as the future service fees to be paid by the member and are expected to cover the costs of providing such services.

Revenue recognition: Occupancy revenue is recognized when rooms are occupied and services have been rendered. Revenue from restaurant sales is recognized when food and beverage products are sold. Foundation revenue is recognized after the completion of a show or event, net of expenses for box office fees, production fees and other miscellaneous charges.

Classes of net assets: Unrestricted net assets are those net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets are donations received with donor-imposed restrictions that specify the use of the assets and are satisfied either through the passage of time or by the actions of the Association. Temporarily restricted net assets consist of donations restricted for annually awarded scholarships and specific programs. Depending upon the amount of the donation and upon donor-imposed restrictions, scholarships may be awarded in the name of the donor.

Permanently restricted net assets are contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Association. There were no permanently restricted net assets at June 30, 2016 or 2015.

Cash and cash equivalents: Cash and cash equivalents consist of cash and money market funds. The Association considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

Concentration of credit risk: The Association maintains certificates of deposit, which are fully insured by the Federal Deposit Insurance Corporation within the \$250,000 limit. The Association also maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to any significant credit risk related to cash.

Accounts receivable: Accounts receivable generally consist of amounts due from members for the use of facilities for special events. Invoices are due 30 days from date of invoice. Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by calculating individual member receivables and considering a member's financial condition, credit history and current economic conditions. Accounts receivable are written off against the allowance when deemed uncollectible.

During the years ended June 30, 2016 and 2015, the Association continued its agreement with the San Francisco Fleet Week Association (the Fleet Week), a 501(c)(3) organization, to fundraise and manage the Fleet Week's operations. Other receivables consist of expenses incurred on behalf of the Fleet Week such as salary, director meetings and fundraising expenditures. The Association will be reimbursed by the Fleet Week at the end of fundraising operations, which is approximately in November of each year. Certain management employees of the Association are members of the Board of Directors of the San Francisco Fleet Week Association. Total receivables from Fleet Week amounted to \$6,431 and \$55,459 as of June 30, 2016 and 2015, respectively, and are included in accounts receivable in the consolidated statements of financial position.

Inventories: Inventories consist of food, beverage, merchandise and supplies, and are stated at the lower of cost, determined by the first-in, first-out method, or market.

Investments: Investments consist of cash funds for investing, certificates of deposit, marketable equity and debt securities, and mutual funds. All are presented in the financial statements at fair value, except for cash and certificates of deposit, which are presented at carrying value. Realized and unrealized gains and losses are reflected in the consolidated statements of activities as investment income. Investments maturing within the next 12 months are categorized as current assets on the consolidated statements of financial position.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost. Depreciation is computed by the straight-line method over estimated useful lives as follows: building and improvements, six to 39 years; and furniture and equipment, three to 15 years. The cost of maintenance and repairs is charged to expense as incurred. Construction in progress is placed into service when the entire project is complete.

Valuation of long-lived assets: The Association accounts for the valuation of long-lived assets under the Financial Accounting Standards Board (FASB) standard, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This standard requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount the carrying amount of the assets exceeds their estimated fair value. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There were no impairment losses recorded for the years ended June 30, 2016 or 2015.

Income taxes: Marines' Memorial Association and its affiliate, Marines' Memorial Foundation, are not-for-profit organizations as described under Internal Revenue Code Sections 501(c)(19) and 501(c)(3), respectively. The Association is subject to taxation at regular corporate rates on income unrelated to its exempt function.

Marines' Memorial Association and its affiliate have implemented the guidance for income taxes in accordance with Accounting Standards Codification Topic 740 as it relates to accounting for uncertainty in income taxes, which clarifies the treatment of the entities' position of accounting for income taxes recognized in the consolidated financial statements. The guidance also prescribes a recognition threshold and measurement standard for the consolidated financial statement recognition and measurement of an income tax position taken or expected to be taken in the tax return. In addition, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management evaluated the entities' tax positions and concluded that the entities have no uncertain tax positions at June 30, 2016 or 2015. With few exceptions, the Association is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years before 2013.

Presentation of certain taxes: The Association collects various taxes, generally occupancy and sales taxes, from customers and remits these amounts to applicable taxing authorities. The Association's accounting policy is to exclude these taxes from revenues and expenses.

Functional allocation of expenses: The Association allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expense classification.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Operating expenses, including depreciation and amortization, by functional classification for the years ended June 30 are as follows:

	2016	2015
Mission services	\$ 2,349,789	\$ 2,242,440
Hotel services	12,151,502	11,380,391
Theatre services	536,233	557,027
General and administrative	2,129,081	1,619,217
Fundraising	574,908	549,671
	<u>\$ 17,741,513</u>	<u>\$ 16,348,746</u>

Advertising: The Association advertises primarily to promote the activities of the Association and to solicit donations. Total advertising costs are reported under undistributed operating expenses—advertising in the consolidated statements of activities.

Use of estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Association has evaluated subsequent events through September 20, 2016, the date on which the consolidated financial statements were available to be issued.

Note 2. Investments

The following summarizes the relationship between cost and fair values of investments at June 30:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash funds for investing	\$ 9,080	\$ 9,080	\$ 8,705	\$ 8,705
Exchange-traded funds	638,134	916,362	606,119	865,450
Mutual funds	753,508	931,476	659,692	901,267
Corporate bonds	161,251	167,089	161,251	165,611
Certificates of deposit	717,251	523,384	776,889	776,889
	<u>\$ 2,279,224</u>	<u>\$ 2,547,391</u>	<u>\$ 2,212,656</u>	<u>\$ 2,717,922</u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Investment return consists of the following at June 30:

	2016		
	Unrestricted	Temporarily Restricted	Total
Interest	\$ 19,517	\$ 377	\$ 19,894
Dividends	93,988	-	93,988
Net realized and unrealized gains on investments	(34,186)	-	(34,186)
	<u>\$ 79,319</u>	<u>\$ 377</u>	<u>\$ 79,696</u>

	2015		
	Unrestricted	Temporarily Restricted	Total
Interest	\$ 15,867	\$ 3,158	\$ 19,025
Dividends	95,746	-	95,746
Net realized and unrealized loss on investments	31,158	-	31,158
	<u>\$ 142,771</u>	<u>\$ 3,158</u>	<u>\$ 145,929</u>

Fair value measurements: Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Association uses various methods, including the market, income and cost approaches.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Association has the ability to access.

Level 2: These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the investments.

Level 3: These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's level within the fair value hierarchy is based on the lower level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Association has various processes and controls in place to ensure that fair value is reasonably estimated.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

While the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Equity securities and bonds: The fair value of equity securities and bonds is the market value based on quoted market prices.

Mutual funds: Mutual funds are valued at the published net asset values or quoted market prices for identical assets provided by the fund manager.

There have been no changes to the valuation methodologies as of June 30, 2016 or 2015.

Description	Recorded at June 30, 2016	Fair Value Measurements at June 30, 2016		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 167,089	\$ 167,089	\$ -	\$ -
Stocks	916,362	916,362	-	-
Mutual funds	931,476	931,476	-	-
	<u>\$ 2,014,927</u>	<u>\$ 2,014,927</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Recorded at June 30, 2015	Fair Value Measurements at June 30, 2015		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 165,611	\$ 165,611	\$ -	\$ -
Stocks	865,450	865,450	-	-
Mutual funds	901,267	901,267	-	-
	<u>\$ 1,932,328</u>	<u>\$ 1,932,328</u>	<u>\$ -</u>	<u>\$ -</u>

Note 3. Property and Equipment

During 2015 the Association began its hotel room renovation project. The renovation project was completed as of June 5, 2016 except for the windows on the 9th floor. The 9th floor windows were completed on August 5, 2016. As of June 30, 2016, the full amount of the construction in progress of \$5,000 is related to lobby renovation planning, historical façade research, bid collections and the naming project. The project should be completed by June 30, 2017.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 4. Accrued Severance Pay

The Association had a severance pay benefit policy for employees who terminated their employment in good standing. Benefits ranged from 5 percent of base annual earnings for employees with five to 19 years of continuous employment to 100 percent of base annual earnings for employees with 20 years or more of continuous employment.

On July 1, 1992, this plan was amended and supplemented with an employee retirement plan (see Note 7). For purposes of determining future severance pay distributions to employees, the base annual earnings will remain at the July 1, 1992 level, but the vesting percentage will continue to increase through 20 years of employment. Therefore, when an employee terminates his/her employment in good standing, that employee, if 100 percent vested as of July 1, 1992, will receive all amounts in the accrued severance pay plan plus the amounts vested under the employee retirement plan. If the employee was not 100 percent vested as of July 1, 1992, that employee will receive the amount as recorded on July 1, 1992 plus all amounts vested under the employee retirement plan.

If this cumulative amount is less than what the accrued severance pay plan would have allowed for vesting increases, the Association will pay the employee the difference. As of June 30, 2016 and 2015, the Association had \$52,974 in accrued severance pay.

Note 5. Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes or periods:

	2016	2015
Aid and assist program	\$ 22,233	\$ 28,727
Care package program	66,226	76,349
Scholarship funds	478,851	473,070
	<u>\$ 567,310</u>	<u>\$ 578,146</u>

Note 6. Releases From Restriction

The following amounts classified as temporarily restricted net assets were released from restriction during the years ended June 30:

	2016	2015
Aid and assist program	\$ 11,844	\$ 12,800
Care package program	16,048	13,797
Gold star events	147,826	39,510
Scholarship funds	113,870	106,667
	<u>\$ 289,588</u>	<u>\$ 172,774</u>

Note 7. Retirement Plan

The Association has made available the Marines' Memorial 401(k) Retirement Plan for the benefit of eligible employees, as defined. Employees who elect to participate may make contributions from 2 percent up to the maximum of their eligible compensation allowed by law, and the Association may match up to 5 percent as of June 30, 2016. Total matching contributions were \$262,057 and \$228,341 for the years ended June 30, 2016 and 2015, respectively.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 8. Space Rentals

The Association leases rental space within the facilities to third parties under operating leases expiring in various years to 2024. The rental payments are subject to adjustment based on changes in the Consumer Price Index. One lease contains a provision for percentage rent of 10 percent of net revenue over \$1.5 million, as defined in the lease. There was no percentage rent earned for the years ended June 30, 2016 or 2015.

Minimum future rental receipts to expiration date of the leases are as follows:

Years ending June 30:	
2017	\$ 235,234
2018	212,724
2019	171,378
2020	47,340
2021	47,340
Thereafter	130,185
	<u>\$ 844,201</u>

Rental income was \$238,096 and \$235,763 for the years ended June 30, 2016 and 2015, respectively.

Note 9. Line of Credit

The Association has a \$3,000,000 unsecured revolving line of credit with Bank of the West expiring on October 31, 2016, with interest at the prime rate, which was 3.50 percent and 3.25 percent at June 30, 2016 and 2015, respectively. Interest is payable monthly, and principal balance is due upon maturity of the line of credit. During fiscal year 2015, the Association drew \$700,000 in conjunction with its hotel rooms' renovation project. The promissory note contains various restrictive covenants. The total amount outstanding as of June 30, 2016 and 2015 amounted to \$3,000,000 and \$2,300,000, respectively. Interest expense for the years ended June 30, 2016 and 2015 was \$84,683 (of which \$64,159 was capitalized) and \$38,716, respectively.

Subsequent to year-end, the maturity date of the line of credit has been extended to December 1, 2016. The Association is currently negotiating with Bank of the West to convert the line of credit into a term loan.

Supplementary Information

Marines' Memorial Association and Affiliate

**Consolidating Statement of Financial Position
June 30, 2016
With Comparative Totals for 2015**

	2016			2015	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 861,352	\$ 26,172	\$ -	\$ 887,524	\$ 1,135,660
Investments, current	1,932,512	-	-	1,932,512	1,820,752
Accounts receivable, net of allowance for doubtful accounts of \$3,000 in 2016 and 2015	163,099	-	(21,146)	141,953	181,291
Interest receivable	3,446	-	-	3,446	3,465
Inventories	214,693	-	-	214,693	191,925
Prepaid expenses	155,234	-	-	155,234	231,822
Total current assets	3,330,336	26,172	(21,146)	3,335,362	3,564,915
Investments, long-term	614,879	-	-	614,879	897,170
Property and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	17,897,348	-	-	17,897,348	18,065,289
Furniture and equipment	9,499,225	-	-	9,499,225	6,672,095
	27,516,573	-	-	27,516,573	24,857,384
Less accumulated depreciation	(17,047,869)	-	-	(17,047,869)	(16,532,457)
	10,468,704	-	-	10,468,704	8,324,927
Construction in progress	5,000	-	-	5,000	2,116,976
Net property and equipment	10,473,704	-	-	10,473,704	10,441,903
Total assets	\$ 14,418,919	\$ 26,172	\$ (21,146)	\$ 14,423,945	\$ 14,903,988
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000	\$ 2,300,000
Accounts payable	331,820	21,881	(21,146)	332,555	377,382
Accrued liabilities:					
Salaries and wages	957,608	-	-	957,608	1,020,812
Taxes other than income	103,879	-	-	103,879	199,564
Other	262,657	-	-	262,657	264,141
Deposits	473,216	(1,883)	-	471,333	436,276
Total current liabilities	5,129,180	19,998	(21,146)	5,128,032	4,598,175
Accrued severance pay	52,974	-	-	52,974	52,974
Total liabilities	5,182,154	19,998	(21,146)	5,181,006	4,651,149
Commitments and contingencies					
Net assets:					
Unrestricted	8,669,455	6,174	-	8,675,629	9,674,693
Temporarily restricted	567,310	-	-	567,310	578,146
Total net assets	9,236,765	6,174	-	9,242,939	10,252,839
Total liabilities and net assets	\$ 14,418,919	\$ 26,172	\$ (21,146)	\$ 14,423,945	\$ 14,903,988

Marines' Memorial Association and Affiliate

**Consolidating Statement of Activities
Year Ended June 30, 2016
With Comparative Totals for 2015**

	2016			2015	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated	Total
Unrestricted revenues and support:					
Rooms	\$ 6,671,020	\$ -	\$ -	\$ 6,671,020	\$ 6,466,449
Food and beverage	5,051,439	-	-	5,051,439	4,818,485
Theatre	-	499,882	-	499,882	461,726
Memorabilia	53,616	-	-	53,616	55,721
Space rentals	388,096	-	(150,000)	238,096	235,763
Investment return	79,319	-	-	79,319	142,771
Contributions	3,125,986	487,119	(470,000)	3,143,105	2,737,290
Miscellaneous	244,384	2,000	-	246,384	259,791
Net assets released from restriction	289,588	-	-	289,588	172,774
Total unrestricted revenues and support	15,903,448	989,001	(620,000)	16,272,449	15,350,770
Operating expenses:					
Departmental costs and expenses:					
Rooms	3,390,918	-	-	3,390,918	3,349,267
Food and beverage	5,137,678	-	-	5,137,678	4,840,540
Theatre	-	592,234	(150,000)	442,234	475,327
Memorabilia	37,493	-	-	37,493	40,540
Other expense	267,743	-	-	267,743	256,930
Total departmental costs and expenses	8,833,832	592,234	(150,000)	9,276,066	8,962,604
Increase before undistributed operating expenses	7,069,616	396,767	(470,000)	6,996,383	6,388,166
Undistributed operating expenses:					
Membership, development and fundraising	2,838,489	36,052	-	2,874,541	2,748,357
Administrative and general	2,083,485	-	(470,000)	1,613,485	1,587,663
Depreciation	1,401,308	-	-	1,401,308	1,046,180
Energy costs	594,628	-	-	594,628	640,533
Advertising	693,074	-	-	693,074	624,001
Repairs and maintenance	473,069	-	-	473,069	413,006
Insurance	180,886	-	-	180,886	178,680
Property taxes	164,456	-	-	164,456	147,722
Total undistributed operating expenses	8,429,395	36,052	(470,000)	7,995,447	7,386,142
Increase (decrease) in unrestricted net assets	(1,359,779)	360,715	-	(999,064)	(997,976)
Changes in temporarily restricted net assets:					
Donations, scholarships	119,275	-	-	119,275	82,345
Donations, other programs	159,100	-	-	159,100	68,062
Investment income	377	-	-	377	3,158
Net assets released from restriction, funding of scholarships	(113,870)	-	-	(113,870)	(106,667)
Net assets released from restriction, other programs	(175,718)	-	-	(175,718)	(66,107)
Decrease in temporarily restricted net assets	(10,836)	-	-	(10,836)	(19,209)
Change in net assets	(1,370,615)	360,715	-	(1,009,900)	(1,017,185)
Net assets, beginning of year	10,607,380	(354,541)	-	10,252,839	11,270,024
Net assets, end of year	\$ 9,236,765	\$ 6,174	\$ -	\$ 9,242,939	\$ 10,252,839