

Marines' Memorial Association and Affiliate

Consolidated Financial Report
June 30, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
Marines' Memorial Association and Affiliate

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, 2019 and 2018, the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation, as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, Marines' Memorial Association and its affiliate, Marines' Memorial Foundation, have retroactively adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the 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 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 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

RSM US LLP

Phoenix, Arizona
September 19, 2019

Marines' Memorial Association and Affiliate

**Consolidated Statements of Financial Position
June 30, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,927,800	\$ 1,330,701
Investments, current	2,318,890	2,622,384
Accounts receivable, net of allowance for doubtful accounts of \$3,000	244,010	189,741
Interest receivable	9,931	9,196
Inventories	194,046	190,609
Prepaid expenses	119,500	112,883
Total current assets	6,814,177	4,455,514
Investments, long-term	2,435,508	653,669
Property and equipment:		
Land	120,000	120,000
Building and improvements	16,462,216	16,520,756
Furniture and equipment	9,191,449	9,101,239
	25,773,665	25,741,995
Less accumulated depreciation	(18,418,970)	(17,639,512)
	7,354,695	8,102,483
Construction in progress	60,959	-
Net property and equipment	7,415,654	8,102,483
Total assets	\$ 16,665,339	\$ 13,211,666
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 351,342	\$ 363,325
Accrued liabilities:		
Salaries and wages	1,195,661	1,065,024
Taxes other than income	115,473	126,974
Other	294,676	310,702
Deposits	572,420	649,388
Current portion of long-term debt	262,681	-
Total current liabilities	2,792,253	2,515,413
Long-term debt, net of current portion and deferred financing costs	6,758,790	3,000,000
Total liabilities	9,551,043	5,515,413
Commitments and contingencies		
Net assets:		
Without donor restrictions	6,415,720	6,966,624
With donor restrictions	698,576	729,629
Total net assets	7,114,296	7,696,253
Total liabilities and net assets	\$ 16,665,339	\$ 13,211,666

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

**Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018**

	2019	2018
Revenues and support without donor restrictions:		
Rooms	\$ 8,010,526	\$ 7,166,217
Food and beverage	5,562,080	5,379,347
Theatre	522,209	587,421
Memorabilia	43,921	45,671
Space rentals	227,428	242,506
Investment income	208,538	340,197
Membership	2,046,160	1,580,660
Contributions	1,214,174	1,324,973
Miscellaneous	224,210	220,413
Net assets released from restrictions	252,979	268,955
Total revenues and support without donor restrictions	18,312,225	17,156,360
Revenues and support with donor restrictions:		
Contributions	221,926	342,106
Investment return	-	8,992
Net assets released from restrictions	(252,979)	(268,955)
Total revenues and support with donor restrictions	(31,053)	82,143
Total revenues and support	18,281,172	17,238,503
Expenses:		
Program services	15,643,672	15,731,198
Supporting services:		
Management and general	2,744,934	2,445,573
Fundraising	474,523	454,071
Total expenses	18,863,129	18,630,842
Change in net assets	(581,957)	(1,392,339)
Net assets, beginning of year	7,696,253	9,088,592
Net assets, end of year	\$ 7,114,296	\$ 7,696,253

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2019
(With Comparative Totals for 2018)**

	Program Services	Management and General	Fundraising	2019	2018
Functional expenses:					
Compensation	\$ 8,812,444	\$ 1,279,270	\$ 184,985	\$ 10,276,699	\$ 9,786,716
Depreciation	1,304,971	17,196	-	1,322,167	1,371,095
Utilities	715,286	9,026	-	724,312	767,579
Professional fees	321,135	169,497	202,557	693,189	549,084
Licenses and fees	16,138	575,636	-	591,774	531,023
Program supplies	504,996	-	-	504,996	488,904
Food and beverage	2,096,734	-	1,737	2,098,471	2,024,970
Events	315,827	-	-	315,827	401,029
Information systems	242,340	3,193	-	245,533	264,934
Advertising and marketing	246,492	5,500	57,266	309,258	570,814
Interest	-	293,771	-	293,771	94,443
Employee relations	-	199,174	-	199,174	196,658
Printing and postage	138,418	19,747	18,401	176,566	162,635
Repairs and maintenance	167,730	2,210	-	169,940	233,132
Insurance	156,814	2,066	-	158,880	198,471
Telephone	146,650	985	-	147,635	158,621
Taxes	122,339	19,877	-	142,216	148,722
Scholarships	95,000	-	-	95,000	125,000
Equipment rental	78,063	1,029	-	79,092	80,546
Member relations	73,611	-	-	73,611	90,356
Parking	924	57,643	-	58,567	59,347
Training and development	32,383	-	-	32,383	59,834
Board of Directors	-	36,903	-	36,903	63,805
Miscellaneous	55,377	52,211	9,577	117,165	203,124
Total expenses	\$ 15,643,672	\$ 2,744,934	\$ 474,523	\$ 18,863,129	\$ 18,630,842

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

**Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (581,957)	\$ (1,392,339)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,322,167	1,371,095
Amortization of deferred financing costs	1,233	-
Net realized and unrealized gain on investments	(151,774)	(225,487)
Stock donations	(20,151)	(34,493)
(Increase) decrease in operating assets:		
Accounts receivable	(54,269)	14,903
Interest receivable	(735)	(5,750)
Inventories	(3,437)	14,381
Prepaid expenses	(6,617)	(2,177)
Increase (decrease) in operating liabilities:		
Accounts payable	(11,983)	(47,387)
Accrued salaries and wages	130,637	24,576
Accrued taxes other than income	(11,501)	16,976
Accrued other	(16,026)	32,959
Deposits	(76,968)	(4,550)
Net cash provided by (used in) operating activities	518,619	(237,293)
Cash flows from investing activities:		
Proceeds from sale of investments	2,679,214	607,935
Purchase of investments	(3,985,634)	(656,550)
Purchase of property and equipment	(635,338)	(203,877)
Net cash used in investing activities	(1,941,758)	(252,492)
Cash flows from financing activities:		
Borrowings on long-term debt	4,053,105	-
Payment of deferred financing costs	(32,867)	-
Net cash provided by financing activities	4,020,238	-
Net increase (decrease) in cash and cash equivalents	2,597,099	(489,785)
Cash and cash equivalents, beginning of year	1,330,701	1,820,486
Cash and cash equivalents, end of year	\$ 3,927,800	\$ 1,330,701
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 292,538	\$ 94,443
Supplemental schedule of noncash investing activities:		
Donation of stocks	\$ 20,151	\$ 34,493

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 veterans' 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 theatre located in the hotel and to align the management practices of the theatre 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 theatre to the Foundation.

A summary of significant accounting policies is as follows:

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

Basis of accounting: The Association presents its consolidated financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of 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 financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

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. 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.

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 net realizable value.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

Investments: Investments consist of certificates of deposit, marketable equity and debt securities, and mutual funds. Marketable equity and debt securities and mutual funds are presented in the financial statements at fair value. Realized and unrealized gains and losses are reflected on 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.

Property and equipment: Property and equipment is stated at cost. Depreciation is computed by the straight-line method over estimated useful lives as follows: building and improvements, six to 39 years; 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, 2019 or 2018.

Deferred financing costs: Deferred financing costs are presented as a direct deduction from the carrying amount of the related debt on the consolidated statements of financial position. The costs are amortized over the term of the respective loan on the straight-line method, which approximates the effective interest rate method. Total amortization expense was approximately \$1,000 for the year ended June 30, 2019, and is recorded as interest expense on the accompanying consolidated statement of functional expenses. There was no amortization expense for the year ended June 30, 2018.

Liquidity: The Association has a policy to maintain available cash and investments to meet 60 days of normal operating expenses which, on average, approximate \$3,400,000. Cash in excess of daily requirements is available to be invested in various investments with maturities designated to meet obligations as they come due. In addition, the Association, as more fully described in Note 3, has a line of credit permitting maximum borrowings up to \$1,000,000.

Financial assets available for general expenditures within one year of June 30, 2019, are as follows:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 3,927,800
Accounts receivable, net	244,010
Interest receivable	9,931
Investments	4,754,398
Total financial assets	<u>8,936,139</u>
Less: long-term investments	<u>(2,435,508)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 6,500,631</u></u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of 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 restrictions.

Net assets with donor restrictions: The Association reports contributions as net assets with donor restrictions 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions. Net assets with donor restrictions include 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.

Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018, the Association had no net assets with donor restrictions that were perpetual in nature.

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 theatre revenue is recognized after the completion of a show or event, net of expenses for box office fees, production fees and other miscellaneous charges.

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, 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 restriction, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions. Contributions of stock are recognized at fair value when received.

Membership transactions: Membership transactions consist of annual memberships as well as lifetime memberships (Benefactor). Annual memberships are recognized as income when the member application is finalized. Individuals are entitled to a Benefactor membership designation within the Association for a contribution of \$3,500 or more. Benefactor members are not required to make any additional annual contributions to remain a member of the Association. These contributions were recognized as income in the period received, as the future service fees to be paid by the members are expected to cover the costs of providing such services. Benefactor membership sales were temporarily discontinued as of December 31, 2016, and the program was restarted on July 1, 2018.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

Of total membership fees recognized for 2019 and 2018, exchange transactions, or transactions for which members are deemed to have received value for fees paid, are estimated at approximately \$991,000 and \$1,000,000, respectively. The difference between the amount paid and the exchange transaction is recognized as a contribution without donor restrictions to the Association.

Advertising: The Association advertises primarily to promote the activities of the Association and to solicit donations. Total advertising costs are reported under advertising and marketing on the consolidated statement of functional expenses.

Functional allocation of expenses: The costs of program and supporting services activities have been summarized on a functional basis on the consolidated statements of activities. The consolidated statement of functional expenses present the natural classification detail of expenses by function.

Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include repairs and maintenance, depreciation, utilities, insurance, taxes, information systems, telephone, and equipment, and compensation for certain employees. These expenses are allocated based on square footage.

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.

The Association has implemented the guidance for income taxes in accordance with FASB 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 financial statements. The guidance also prescribes a recognition threshold and measurement standard for the 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, 2019 or 2018. 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 2016.

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.

Recently adopted accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. This ASU was adopted effective for the year ended June 30, 2019, and have been applied on a retrospective basis to all periods presented within these consolidated financial statements.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

Net asset reclassifications as a result of the adoption of ASU 2016-14 as of June 30, 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net asset classification as previously presented:			
Unrestricted	\$ 6,966,624	\$ -	\$ 6,966,624
Temporarily restricted	-	729,629	729,629
Net assets	<u>\$ 6,966,624</u>	<u>\$ 729,629</u>	<u>\$ 7,696,253</u>

Pending accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Association is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition on the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Association is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents on the statement of cash flows. ASU 2016-18 will be effective for annual financial statements issued for fiscal years beginning after January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Association is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassifications: Certain amounts in the 2018 consolidated statement of activities and consolidated statement of financial position have been reclassified to conform to the 2019 financial statement presentation. These reclassifications had no effect on cash flows, changes in net assets, or net assets previously reported.

Subsequent events: The Association has evaluated subsequent events through September 19, 2019, the date on which the financial statements were available to be issued.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 2. Investments

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

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Exchange-traded funds	\$ 285,008	\$ 532,863	\$ 409,036	\$ 753,354
Mutual funds	426,305	508,917	875,047	1,298,206
Corporate bonds	90,521	93,685	90,770	91,483
Government securities	1,950,417	1,978,210	-	-
Certificates of deposit	1,611,000	1,640,723	1,143,000	1,133,010
	<u>\$ 4,363,251</u>	<u>\$ 4,754,398</u>	<u>\$ 2,517,853</u>	<u>\$ 3,276,053</u>

Investment return consists of the following at June 30:

	2019	2018
Interest	\$ 41,410	\$ 30,144
Dividends	15,354	93,558
Net realized and unrealized gains on investments	151,774	225,487
	<u>\$ 208,538</u>	<u>\$ 349,189</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.

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 are descriptions of the valuation methodologies used for instruments measured at fair value:

Exchange-traded funds 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.

Government securities: The fair value of government securities is calculated as the present value of the future cash payment at the stated interest rate.

There have been no changes to the valuation methodologies as of June 30, 2019 or 2018.

Description	Recorded at June 30, 2019	Fair Value Measurements at June 30, 2019		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 93,685	\$ 93,685	\$ -	\$ -
Exchange-traded funds	532,863	532,863	-	-
Mutual funds	508,917	508,917	-	-
Government securities	1,978,210	1,978,210	-	-
Certificates of deposit	1,640,723	1,640,723	-	-
	<u>\$ 4,754,398</u>	<u>\$ 4,754,398</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Recorded at June 30, 2018	Fair Value Measurements at June 30, 2018		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 91,483	\$ 91,483	\$ -	\$ -
Exchange-traded funds	753,354	753,354	-	-
Mutual funds	1,298,206	1,298,206	-	-
Certificates of deposit	1,133,010	1,133,010	-	-
	<u>\$ 3,276,053</u>	<u>\$ 3,276,053</u>	<u>\$ -</u>	<u>\$ -</u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 3. Line of Credit

On December 7, 2016, the Association entered into a line of credit with First Republic Bank, which provided for a credit line of up to \$2,000,000. On September 25, 2018, the Association refinanced the line of credit with First Republic Bank and entered into an agreement which provides for a credit line of up to \$1,000,000. Interest is payable monthly at a fluctuating interest rate per annum based on the U.S prime rate as published in the Wall Street Journal. The interest rate was 5.50% at June 30, 2019. The line of credit expires on September 25, 2023, at which time all unpaid principal and interest is due. As of June 30, 2019 and 2018, there was no outstanding balance on the line of credit.

Note 4. Long-Term Debt

The Association entered into a \$3,000,000 term loan agreement with First Republic Bank on December 7, 2016. On September 25, 2018, the Association refinanced the loan with First Republic Bank and entered into a \$7,500,000 term loan agreement. The loan requires 6 monthly interest-only payments at an interest rate of 4.85%, beginning on October 25, 2018. Beginning April 25, 2019, a monthly principal and interest payment of \$49,920 is due for 114 months, at an interest rate of 4.85%. Beginning October 25, 2028, a monthly principal and interest payment of \$50,860 will be due for 120 months, with interest being calculated using the one-month LIBOR rate plus a margin of 3.00%, until the maturity of the loan on September 25, 2038. The loan agreement contains various financial covenants. The total balance outstanding on the term loans as of June 30, 2019 and 2018, was \$7,053,105 and \$3,000,000, respectively. Deferred financing costs, net of accumulated amortization were approximately \$32,000 at June 30, 2019. There were no deferred financing costs at June 30, 2018.

Aggregate maturities during the next five years and thereafter are as follows:

Years ending June 30:	
2020	\$ 262,681
2021	275,708
2022	289,381
2023	303,732
2024	318,795
Thereafter	5,602,808
	<u>\$ 7,053,105</u>

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30 were as follows:

	2019	2018
Aid and assist program	\$ 83,518	\$ 58,000
Care package program	38,195	48,052
Capital improvement	150	150
Gold star events	481	9,007
Living memorial	1,850	850
Scholarship funds	574,382	613,570
	<u>\$ 698,576</u>	<u>\$ 729,629</u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 5. Net Assets With Donor Restrictions (Continued)

Net assets were released from restrictions as follows during the years ended June 30:

	2019	2018
Aid and assist program	\$ 4,403	\$ 5,975
Care package program	9,857	10,730
Gold star events	102,967	111,083
Living memorial	18,849	5,608
Education and historic	-	3,900
Birthday ball	30,860	550
Theatre	-	6,109
Scholarship funds	86,043	125,000
	<u>\$ 252,979</u>	<u>\$ 268,955</u>

Note 6. 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 was terminated subsequent to June 30, 2019.

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

Years ending June 30:	
2020	\$ 79,000
2021	79,000
2022	74,000
2023	50,000
2024	50,000
	<u>\$ 332,000</u>

Rental income was approximately \$227,000 and \$242,000 for the years ended June 30, 2019 and 2018, respectively.

Note 7. Retirement Plan

The Association has made available the Marines' Memorial 401(k) Retirement Plan for the benefit of eligible employees, as defined by the plan agreement. Employees who elect to participate may make contributions from 2% up to the maximum of their eligible compensation allowed by law, and the Association may match up to 5%. Total matching contributions were approximately \$309,000 and \$265,000 for the years ended June 30, 2019 and 2018, respectively.

Supplementary Information

Marines' Memorial Association and Affiliate

**Consolidating Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)**

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2019	Total 2018
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,779,855	\$ 147,945	\$ -	\$ 3,927,800	\$ 1,330,701
Investments, current	2,318,890	-	-	2,318,890	2,622,384
Accounts receivable, net of allowance for doubtful accounts of \$3,000	244,010	-	-	244,010	189,741
Receivable from affiliates	140,429	-	(140,429)	-	-
Interest receivable	9,931	-	-	9,931	9,196
Inventories	194,046	-	-	194,046	190,609
Prepaid expenses	119,500	-	-	119,500	112,883
Total current assets	6,806,661	147,945	(140,429)	6,814,177	4,455,514
Investments, long-term	2,435,508	-	-	2,435,508	653,669
Property and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	16,462,216	-	-	16,462,216	16,520,756
Furniture and equipment	9,191,449	-	-	9,191,449	9,101,239
	25,773,665	-	-	25,773,665	25,741,995
Less accumulated depreciation	(18,418,970)	-	-	(18,418,970)	(17,639,512)
	7,354,695	-	-	7,354,695	8,102,483
Construction in progress	60,959	-	-	60,959	-
Net property and equipment	7,415,654	-	-	7,415,654	8,102,483
Total assets	\$ 16,657,823	\$ 147,945	\$ (140,429)	\$ 16,665,339	\$ 13,211,666
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 348,340	\$ 3,002	\$ -	\$ 351,342	\$ 363,325
Accrued liabilities:					
Salaries and wages	1,195,661	-	-	1,195,661	1,065,024
Taxes other than income	115,473	-	-	115,473	126,974
Other	294,676	-	-	294,676	310,702
Payables to affiliates	-	140,429	(140,429)	-	-
Deposits	576,391	(3,971)	-	572,420	649,388
Current portion of long-term debt	262,681	-	-	262,681	-
Total current liabilities	2,793,222	139,460	(140,429)	2,792,253	2,515,413
Long-term debt, net of current portion and deferred financing costs	6,758,790	-	-	6,758,790	3,000,000
Total liabilities	9,552,012	139,460	(140,429)	9,551,043	5,515,413
Commitments and contingencies					
Net assets:					
Without donor restrictions	6,435,216	(19,496)	-	6,415,720	6,966,624
With donor restrictions	670,595	27,981	-	698,576	729,629
Total net assets	7,105,811	8,485	-	7,114,296	7,696,253
Total liabilities and net assets	\$ 16,657,823	\$ 147,945	\$ (140,429)	\$ 16,665,339	\$ 13,211,666

Marines' Memorial Association and Affiliate

**Consolidating Statement of Activities
Year Ended June 30, 2019
(With Comparative Totals for 2018)**

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2019	Total 2018
Revenues and support without donor restrictions:					
Rooms	\$ 8,010,526	\$ -	\$ -	\$ 8,010,526	\$ 7,166,217
Food and beverage	5,562,080	-	-	5,562,080	5,379,347
Theatre	-	522,209	-	522,209	587,421
Memorabilia	43,921	-	-	43,921	45,671
Space rentals	407,428	-	(180,000)	227,428	242,506
Investment income	208,880	(342)	-	208,538	340,197
Membership	2,046,160	-	-	2,046,160	1,580,660
Contributions	1,052,889	261,285	(100,000)	1,214,174	1,324,973
In-kind support	-	88,000	(88,000)	-	-
Miscellaneous	221,511	2,699	-	224,210	220,413
Net assets released from restrictions	238,491	14,488	-	252,979	268,955
Total revenues and support without donor restrictions	17,791,886	888,339	(368,000)	18,312,225	17,156,360
Revenues and support with donor restrictions:					
Contributions	206,532	15,394	-	221,926	342,106
Investment return	-	-	-	-	8,992
Net assets released from restrictions	(238,491)	(14,488)	-	(252,979)	(268,955)
Total revenues and support with donor restrictions	(31,959)	906	-	(31,053)	82,143
Total revenues and support	17,759,927	889,245	(368,000)	18,281,172	17,238,503
Expenses:					
Program services	15,159,134	764,538	(280,000)	15,643,672	15,731,198
Supporting services:					
Management and general	2,717,872	95,062	(68,000)	2,744,934	2,445,573
Fundraising	474,523	20,000	(20,000)	474,523	454,071
Total expenses	18,351,529	879,600	(368,000)	18,863,129	18,630,842
Change in net assets	(591,602)	9,645	-	(581,957)	(1,392,339)
Net assets, beginning of year	7,697,413	(1,160)	-	7,696,253	9,088,592
Net assets, end of year	\$ 7,105,811	\$ 8,485	\$ -	\$ 7,114,296	\$ 7,696,253