

# **Marines' Memorial Association and Affiliate**

Consolidated Financial Report  
June 30, 2022

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## Independent Auditor's Report

Board of Directors  
Marines' Memorial Association and Affiliate

### Opinion

We have audited the consolidated financial statements of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation (the Association), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of June 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is 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 consolidating statements of financial position and activities have 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.

*RSM US LLP*

San Francisco, California  
October 4, 2022

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Financial Position  
June 30, 2022 and 2021**

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,778,932	\$ 3,792,945
Investments, current	2,096,741	1,748,400
Accounts receivable, net of allowance for doubtful accounts	198,962	26,111
Pledges receivable, current	121,028	179,545
Other receivables	234,021	19,949
Inventories	153,345	160,735
Prepaid expenses	87,458	102,989
<b>Total current assets</b>	<b>5,670,487</b>	<b>6,030,674</b>
Pledges receivable, long-term, net of allowance for doubtful accounts and discount	177,573	264,631
Investments, long-term	1,549,577	2,088,380
Property, plant and equipment:		
Land	120,000	120,000
Building and improvements	15,159,443	15,169,320
Furniture and equipment	9,573,732	9,481,242
	<b>24,853,175</b>	<b>24,770,562</b>
Less accumulated depreciation	(20,011,324)	(19,210,593)
	<b>4,841,851</b>	<b>5,559,969</b>
Construction in progress	1,897,127	1,103,882
<b>Net property, plant and equipment</b>	<b>6,738,978</b>	<b>6,663,851</b>
<b>Total assets</b>	<b>\$ 14,136,615</b>	<b>\$ 15,047,536</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 278,000	\$ 117,380
Accrued liabilities:		
Salaries and wages	364,445	329,687
Taxes other than income	83,735	22,833
Other	250,452	216,266
Deposits	426,396	441,244
Deferred revenue	537,720	466,412
Current portion of Paycheck Protection Program loans	-	39,865
<b>Total current liabilities</b>	<b>1,940,748</b>	<b>1,633,687</b>
Long-term debt, net of current portion and deferred financing costs	6,597,840	6,594,489
Paycheck Protection Program loans, net of current portion	-	3,725,035
<b>Total liabilities</b>	<b>8,538,588</b>	<b>11,953,211</b>
Commitments and contingencies		
Net assets:		
Without donor restrictions	3,291,027	1,240,207
With donor restrictions	2,307,000	1,854,118
<b>Total net assets</b>	<b>5,598,027</b>	<b>3,094,325</b>
<b>Total liabilities and net assets</b>	<b>\$ 14,136,615</b>	<b>\$ 15,047,536</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Activities  
Years Ended June 30, 2022 and 2021**

	2022	2021
Revenues and support without donor restrictions:		
Rooms	\$ 2,969,402	\$ 606,559
Food and beverage	1,517,263	103,743
Memorabilia	12,395	13,590
Space rentals	75,283	23,981
Investment return, net	(96,932)	66,012
Membership	691,787	709,239
Contributions	2,516,491	2,368,400
Paycheck Protection Program loan forgiveness	3,762,729	-
Employee Retention Tax Credit contributions	428,277	-
Miscellaneous	105,858	3,599
Net assets released from restrictions	311,387	219,941
<b>Total revenues and support without donor restrictions</b>	<b>12,293,940</b>	<b>4,115,064</b>
Revenues and support with donor restrictions:		
Contributions	764,269	529,635
Net assets released from restrictions	(311,387)	(219,941)
<b>Total revenues and support with donor restrictions</b>	<b>452,882</b>	<b>309,694</b>
<b>Total revenues and support</b>	<b>12,746,822</b>	<b>4,424,758</b>
Expenses:		
Program services	7,865,926	5,323,835
Supporting services:		
Management and general	1,806,401	1,243,975
Fundraising	570,793	458,564
<b>Total expenses</b>	<b>10,243,120</b>	<b>7,026,374</b>
<b>Change in net assets</b>	<b>2,503,702</b>	<b>(2,601,616)</b>
Net assets, beginning of year	3,094,325	5,695,941
Net assets, end of year	<b>\$ 5,598,027</b>	<b>\$ 3,094,325</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2022**

	Program Services	Management and General	Fundraising	Total
Functional expenses:				
Compensation	\$ 3,579,528	\$ 1,155,687	\$ 126,316	\$ 4,861,531
Depreciation	859,170	11,322	-	870,492
Utilities	471,659	5,806	-	477,465
Professional fees	88,081	117,424	-	205,505
Licenses and fees	4,334	253,829	-	258,163
Program supplies	158,477	-	-	158,477
Food and beverage	713,177	-	475	713,652
Events	92,235	-	-	92,235
Information systems	209,520	2,761	-	212,281
Advertising and marketing	328,659	-	305,575	634,234
Interest	273,425	3,603	-	277,028
Employee relations	-	134,350	-	134,350
Printing and postage	143,496	6,344	47,915	197,755
Repairs and maintenance	262,510	3,459	-	265,969
Insurance	223,189	2,941	-	226,130
Telephone	91,741	481	-	92,222
Taxes	126,328	21,161	-	147,489
Scholarships	120,000	-	-	120,000
Equipment rental	29,777	392	-	30,169
Member relations	16,055	-	88,656	104,711
Parking	-	28,575	-	28,575
Training and development	1,258	-	-	1,258
Board of directors	-	31,425	-	31,425
Bad debt	-	-	(4,502)	(4,502)
Miscellaneous	73,307	26,841	6,358	106,506
<b>Total expenses</b>	<b>\$ 7,865,926</b>	<b>\$ 1,806,401</b>	<b>\$ 570,793</b>	<b>\$ 10,243,120</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2021**

	Program Services	Management and General	Fundraising	Total
Functional expenses:				
Compensation	\$ 2,234,082	\$ 865,134	\$ 136,680	\$ 3,235,896
Depreciation	1,157,497	15,253	-	1,172,750
Utilities	268,627	3,138	-	271,765
Professional fees	19,640	134,398	185,058	339,096
Licenses and fees	6,501	106,598	-	113,099
Program supplies	99,706	-	-	99,706
Food and beverage	97,218	-	417	97,635
Events	15,995	-	-	15,995
Information systems	167,231	2,204	-	169,435
Advertising and marketing	97,021	-	38,677	135,698
Interest	297,690	3,923	-	301,613
Employee relations	-	40,797	-	40,797
Printing and postage	102,065	5,020	17,780	124,865
Repairs and maintenance	85,421	1,126	-	86,547
Insurance	162,042	2,135	-	164,177
Telephone	110,781	471	-	111,252
Taxes	133,080	14,735	-	147,815
Scholarships	107,500	-	-	107,500
Equipment rental	69,924	921	-	70,845
Member relations	33,279	-	79,703	112,982
Parking	-	19,227	-	19,227
Training and development	(126)	-	-	(126)
Board of directors	-	15,006	-	15,006
Bad debt	-	-	(5,263)	(5,263)
Miscellaneous	58,661	13,889	5,512	78,062
<b>Total expenses</b>	<b>\$ 5,323,835</b>	<b>\$ 1,243,975</b>	<b>\$ 458,564</b>	<b>\$ 7,026,374</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 2,503,702	\$ (2,601,616)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	870,492	1,172,750
Amortization of deferred financing costs	3,351	3,899
Net realized and unrealized loss on investments	218,907	13,307
Change in discount on long-term pledges receivable	(13,203)	(13,203)
Paycheck Protection Program loan forgiveness	(3,725,035)	-
(Increase) decrease in operating assets:		
Accounts receivable	(172,851)	20,450
Pledges receivable	158,778	183,357
Other receivables	(214,072)	(10,920)
Inventories	7,390	27,397
Prepaid expenses	15,531	(6,139)
Increase (decrease) in operating liabilities:		
Accounts payable	160,620	2,635
Accrued salaries and wages	34,758	(73,369)
Accrued taxes other than income	60,902	18,042
Accrued other	34,186	70,821
Deposits	(14,848)	126,872
Deferred revenue	71,308	37,484
<b>Net cash used in operating activities</b>	<b>(84)</b>	<b>(1,028,233)</b>
Cash flows from investing activities:		
Proceeds from sale of investments	(2,830,566)	2,373,460
Purchase of investments	2,802,121	(2,728,464)
Purchase of property, plant and equipment	(945,619)	(1,007,501)
<b>Net cash used in investing activities</b>	<b>(974,064)</b>	<b>(1,362,505)</b>
Cash flows from financing activities:		
Borrowings on Paycheck Protection Program loans	-	2,000,000
Payments on Paycheck Protection Program loans	(39,865)	-
Payment of deferred financing costs	-	(31,150)
<b>Net cash (used in) provided by financing activities</b>	<b>(39,865)</b>	<b>1,968,850</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,014,013)</b>	<b>(421,888)</b>
Cash and cash equivalents, beginning of year	3,792,945	4,214,833
Cash and cash equivalents, end of year	<b>\$ 2,778,932</b>	<b>\$ 3,792,945</b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<b>\$ 356,207</b>	<b>\$ 232,573</b>
Supplemental disclosure of non cash financing information:		
Paycheck Protection Program loan forgiveness	<b>\$ 3,725,035</b>	<b>\$ -</b>
Accrued interest capitalized into principal balance of long-term debt	<b>\$ -</b>	<b>\$ 98,302</b>

See notes to consolidated financial statements.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### 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 consolidated financial statements include the operations of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation (collectively referred to as the Association). Marines' Memorial Foundation is consolidated as a result of economic interest and control. 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 consolidated financial statements in conformity with U.S. 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 consolidated 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. The allowance for doubtful accounts is \$3,000 as of both June 30, 2022 and 2021. Accounts receivable are written off against the allowance when deemed uncollectible.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

**Pledges receivable:** The Association receives unconditional promises to give as a result of solicited contribution campaigns, as well as unsolicited promises. Unconditional promises to give are recognized when received, and allowances are provided for pledges estimated to be uncollectible. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end.

The Association's ability to collect these pledges is affected by economic fluctuations that may affect contributors' ability to honor their obligations. Pledges receivable are written off when deemed uncollectible.

Unconditional promises to give that will be received in a future period are discounted using current market rates to their net present value at the time the revenue is recorded. The Association's promises to give are generally receivable over a two to five-year period based on management's experience with prior contributions and its analysis of specific promises to give.

**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.

**Investments:** Investments consist of certificates of deposit, marketable equity securities, and mutual funds. Certificates of deposit are presented in the consolidated financial statements at amortized cost. Marketable equity securities and mutual funds are presented in the consolidated financial statements at fair value. Realized and unrealized gains and losses are reflected on the consolidated statements of activities as investment return. Investments maturing within the next 12 months are categorized as current assets on the consolidated statements of financial position.

**Property, plant and equipment:** Property, plant 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), *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, 2022 or 2021.

**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 \$3,000 and \$4,000 for the years ended June 30, 2022 and 2021, respectively, and is recorded as interest expense on the accompanying consolidated statements of functional expenses.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### 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, 2022 and 2021, the Association had no net assets with donor restrictions that were perpetual in nature.

**Liquidity:** The Association has a policy to maintain available cash and investments to meet the greater of 60 days of normal operating expenses which, on average, approximate \$1,700,000, or the liquidity required by the Association's loan covenants, which is \$2,500,000. Cash in excess of daily requirements is available to be invested in various investments with maturities designated to meet obligations as they come due. Long-term investments can be liquidated, however these are presented as long-term due to the Association's intention to hold them to maturity. In addition, the Association, as more fully described in Note 4, 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 are as follows:

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 2,778,932	\$ 3,792,945
Accounts receivable, net	198,962	26,111
Pledges receivable, net	298,601	444,176
Other receivables	234,021	19,949
Investments	3,646,318	3,836,780
Total financial assets	7,156,834	8,119,961
Less: long-term pledges receivable	(177,573)	(264,631)
Less: assets with donor restrictions	(2,129,427)	(1,589,487)
Financial assets available to meet general expenditures within one year	<u>\$ 4,849,834</u>	<u>\$ 6,265,843</u>

**Revenue recognition:** The Association recognizes occupancy revenue (consisting of rooms, food and beverage, memorabilia, and miscellaneous revenue on the accompany statements of activities) and the exchange transaction portion of membership revenue in accordance with FASB Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606)*, which requires 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.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

The five-step model defined by Topic 606 requires the Association to: (1) identify the contracts with the customer, (2) identify the performance obligations under those contracts, (3) determine the transaction prices of those contracts, (4) allocate the transaction price to the performance obligations in those contracts, and (5) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the residents in an amount that reflects the consideration expected in exchange for those goods or services.

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

**Membership revenue and deferred revenue:** Membership revenue consists of annual memberships as well as lifetime memberships (Benefactor). Annual membership fees are bifurcated between contribution revenue and exchange transaction revenue based on the estimated value of the benefits received by the members. The contribution portion is recognized in the period received. The exchange transaction portion is recorded as deferred revenue and recognized as revenue over a period of one year as the member is considered to receive the benefits of the membership. 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. Benefactor membership fees are bifurcated between contribution revenue and exchange transaction revenue based on the characteristics of estimated value of the benefits received by the members. The contribution portion is recognized in the period received. The exchange transaction portion is recorded as deferred revenue and recognized as revenue over a period of nine to 26 years as the member is considered to receive the benefits of the membership.

Of total membership fees recognized for 2022 and 2021, exchange transactions, or transactions for which members are deemed to have received value for fees paid, are estimated at approximately \$692,000 and \$709,000, respectively. The difference between the amount paid and the exchange transaction is recognized as a contribution without donor restrictions to the Association, which were approximately \$836,000 and \$814,000 during 2022 and 2021, respectively.

There are no contract assets associated with membership revenue. Contract liabilities consist of deferred revenue in the accompanying statements of financial position. Deferred revenue at July 1, 2020 was \$428,928.

**Contributions:** Contributions, including unconditional promises to give and the contribution portion of membership revenue, are recognized as revenues in the period received in accordance with ASC 958, Not-for-Profit Entities. Conditional promises to give are not recognized until they become unconditional. A contribution is conditional if a barrier must be overcome before the Association is entitled to the asset and a right of return or release exists. Conditional promises to give are recognized as revenue when the barriers outlined by the donor have been 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.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

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.

**Lease income:** The Association recognizes lease income on space rentals from tenants on a straight-line basis over the terms of the respective leases in accordance with the provisions of ASC 840, Leases.

**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 statements 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 statements 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. All other expenses are directly charged to their functional classification based on the nature of the expense incurred.

**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 ASC 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 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, 2022 or 2021. 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 2019.

**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 net these taxes from revenues and expenses.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

**Pending accounting pronouncements:** In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which establishes principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. The new standard requires lessees to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months and requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

The new standard is effective for fiscal years beginning after December 15, 2021. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Association does not expect a significant impact on the future consolidated financial statements upon adoption of ASU 2016-02.

**Subsequent events:** The Association has evaluated subsequent events through October 4, 2022, the date on which the consolidated financial statements were available to be issued.

#### Note 2. Pledges Receivable

During 2020, the Association began a capital campaign to enhance the hotel facilities. Three donors to this campaign accounted for 45% of total pledges receivable at June 30, 2022. Two donors to this campaign accounted for 30% of total pledges receivable at June 30, 2021.

The total of all pledges receivable as of June 30, 2022 and 2021, mature as follows:

	2022	2021
Amounts due		
Within one year	\$ 121,028	\$ 179,545
Two to five years	179,100	269,235
More than five years	20,000	30,000
	<u>320,128</u>	<u>478,780</u>
Less:		
Provision for estimated uncollectible pledges	(9,235)	(13,737)
Pledges receivable discount at an average rate of 2%	(12,292)	(20,867)
	<u>\$ 298,601</u>	<u>\$ 444,176</u>

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 3. Investments

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

	2022		2021	
	Cost	Carrying Value	Cost	Carrying Value
Exchange-traded funds	\$ 258,870	\$ 236,850	\$ 248,926	\$ 278,284
Stocks	7,546	7,549	-	-
Mutual funds	566,182	522,504	426,579	423,773
Corporate bonds	1,692,171	1,703,361	1,465,208	1,476,288
Other bonds	325,284	322,557	243,491	245,326
Certificates of deposit	853,497	853,497	1,413,109	1,413,109
	<u>\$ 3,703,550</u>	<u>\$ 3,646,318</u>	<u>\$ 3,797,313</u>	<u>\$ 3,836,780</u>

Investment return consists of the following for the year ended June 30:

	2022	2021
Interest	\$ 98,983	\$ 73,003
Dividends	22,992	6,316
Net realized and unrealized losses on investments	(218,907)	(13,307)
	<u>\$ (96,932)</u>	<u>\$ 66,012</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 3. 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.

**Exchange-traded funds, stocks 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, 2022 or 2021.

The following summarizes the estimated fair values of the Association's investments:

Description	Fair Value Measurements at June 30, 2022			Recorded at June 30, 2022
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Exchange-traded funds	\$ 236,850	\$ -	\$ -	\$ 236,850
Stocks	7,549	-	-	7,549
Mutual funds	522,504	-	-	522,504
Corporate bonds	-	1,703,361	-	1,703,361
Other bonds	-	322,557	-	322,557
	<u>\$ 766,903</u>	<u>\$ 2,025,918</u>	<u>\$ -</u>	<u>2,792,821</u>
Certificates of deposit (a)				853,497
				<u>\$ 3,646,318</u>

Description	Fair Value Measurements at June 30, 2021			Recorded at June 30, 2021
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Exchange-traded funds	\$ 278,284	\$ -	\$ -	\$ 278,284
Mutual funds	423,773	-	-	423,773
Corporate bonds	-	1,476,288	-	1,476,288
Other bonds	-	245,326	-	245,326
	<u>\$ 702,057</u>	<u>\$ 1,721,614</u>	<u>\$ -</u>	<u>2,423,671</u>
Certificates of deposit (a)				1,413,109
				<u>\$ 3,836,780</u>

(a) Certificates of deposit are measured at amortized cost and have not been classified in the fair value hierarchy.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 4. Line of Credit

The Association has a line of credit with First Republic Bank providing borrowings 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 4.75% at June 30, 2022. The line of credit expires on September 25, 2023, at which time all unpaid principal and interest is due. As of June 30, 2022 and 2021, there was no outstanding balance on the line of credit.

#### Note 5. Long-Term Debt and Paycheck Protection Program Loans

**Long-term debt:** The Association had a \$7,500,000 term loan agreement with First Republic Bank. During the year ended June 30, 2021, the Association refinanced the loan agreement with First Republic Bank, entering into an \$8,553,429 term loan agreement effective July 28, 2020. The initial balance of the term loan is \$6,651,731 with an additional \$1,901,698 available for disbursement during the initial 12-month term of the loan. Beginning August 28, 2020, a monthly interest payment will be due for 24 months at a fixed rate of 3.95%, followed by monthly payments of approximately \$49,000, composed of principal and interest for 60 months at a fixed rate of 3.95%. Beginning August 28, 2023, monthly payments of principal and interest are due until maturity on July 28, 2038, at a variable rate equal to 0.15% below the Prime Index. The loan is guaranteed by Marines' Memorial Foundation, is subject to financial and nonfinancial covenants, and collateralized by a deed of trust executed by the Association, consisting of a first lien on the property of the Association.

Deferred financing costs, net of accumulated amortization, were approximately \$54,000 and \$57,000 at June 30, 2022 and 2021, respectively.

Aggregate maturities of long-term debt during the next five years and thereafter are as follows:

Years ending June 30:	
2023	\$ -
2024	301,369
2025	342,741
2026	356,722
2027	371,274
Thereafter	5,279,625
	<u>\$ 6,651,731</u>

**Paycheck Protection Program loans:** The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, in the United States in response to COVID-19. The Paycheck Protection Program (PPP) was formed as part of the CARES Act and is administered by the U.S. Small Business Administration (SBA). The PPP allows certain companies to apply for aid through forgivable loans (PPP loans). The PPP loans are subject to partial or full forgiveness in the event that the borrower (i) uses all proceeds for eligible purposes; (ii) maintains certain employment levels; and (iii) maintains certain compensation levels, in accordance with the CARES Act. The Association accounts for its PPP loans in accordance with ASC 470, Debt.

The Association applied for a loan and received total proceeds of \$1,764,900 on April 18, 2020. The Association used proceeds from the PPP loan primarily for payroll costs, in accordance with terms and conditions applicable to loans administered by the SBA, and received notification from the lender of forgiveness on July 6, 2021, in the amount of \$1,745,688, which includes accrued interest. Accordingly, this amount is included in Paycheck Protection Program loan forgiveness in the accompanying consolidated statement of activities for the year ended June 30, 2022. The remaining balance of \$39,865 was repaid to the lender during the year ended June 30, 2022.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 5. Long-Term Debt and Paycheck Protection Program Loans (Continued)

The Association applied for a second PPP loan and received total proceeds of \$2,000,000 on March 4, 2021. The Association used proceeds from the PPP loan primarily for payroll costs, in accordance with terms and conditions applicable to loans administered by the SBA, and received notification from the lender of forgiveness on January 11, 2022, in the amount of \$2,017,041, which includes accrued interest. Accordingly, this amount is included in Paycheck Protection Program loan forgiveness in the accompanying consolidated statement of activities for the year ended June 30, 2022.

#### Note 6. Net Assets With Donor Restrictions

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

	2022	2021
Aid and assist program	\$ 156,768	\$ 140,844
Care package program	4,750	11,225
Capital improvements	1,600,310	1,179,145
Gold star events	97,573	57,837
Living memorial	10,893	15,797
Theatre	168	-
Scholarship funds	436,538	449,270
	<u>\$ 2,307,000</u>	<u>\$ 1,854,118</u>

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

	2022	2021
Aid and assist program	\$ 5,880	\$ -
Capital improvements	147,595	79,703
Care package program	6,475	20,895
Gold star events	6,743	-
Living memorial	16,336	5,203
Education and historic	-	50
Theatre	640	640
Scholarship funds	127,718	113,450
	<u>\$ 311,387</u>	<u>\$ 219,941</u>

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 7. Space Rentals

The Association leases rental space within the facilities to third parties under operating leases expiring in various years to 2024. The rental receipts are subject to adjustment based on changes in the Consumer Price Index.

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

Years ending June 30:	
2023	\$ 50,000
2024	38,000
	<u>\$ 88,000</u>

Rental income was approximately \$75,000 and \$24,000 for the years ended June 30, 2022 and 2021, respectively.

#### Note 8. Employee Retention Tax Credit Contributions

In April 2020, the CARES Act created the Employee Retention Tax Credit ("ERTC"), administered by the IRS, for which the Organization recorded \$428,277 in contribution revenue in the consolidated statement of activities for the year ended June 30, 2022. Of this amount, \$211,007 is included in other receivables in the consolidated statement of financial position at June 30, 2022.

#### Note 9. Related-party Transactions

The Association received contributions from board members of approximately \$130,000 and \$140,000 during the years ended June 30, 2022 and 2021, respectively.

#### Note 10. 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 \$117,000 and \$90,000 for the years ended June 30, 2022 and 2021, respectively.

#### Note 11. Commitments and Contingencies

The Association is engaged in a contract with a construction contractor to renovate the elevators. The total contract amount is approximately \$2.7 million with approximately \$650,000 remaining as of June 30, 2022. The balance on the elevator renovation project is included as construction in process within the accompanying consolidated statements of financial position.

The spread of COVID-19, a novel strain of the coronavirus, is altering the behavior of businesses and people in a manner that has adversely impact local, regional and global economies. The extent to which the coronavirus impacts the Association's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors management is not currently able to predict. Accordingly, management cannot presently estimate the overall operational and financial impact to the Association, but such an impact could have a material adverse effect on the financial condition of the Association.

## **Supplementary Information**

## Marines' Memorial Association and Affiliate

### Consolidating Statement of Financial Position June 30, 2022 (With Comparative Totals for 2021)

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2022	Total 2021
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,362,573	\$ 416,359	\$ -	\$ 2,778,932	\$ 3,792,945
Investments, current	2,096,741	-	-	2,096,741	1,748,400
Accounts receivable, net of allowance for doubtful accounts	198,962	-	-	198,962	26,111
Pledges receivable, current	121,028	-	-	121,028	179,545
Receivable from affiliates	-	18,873	(18,873)	-	-
Other receivables	234,021	-	-	234,021	19,949
Inventories	153,345	-	-	153,345	160,735
Prepaid expenses	87,458	-	-	87,458	102,989
<b>Total current assets</b>	<b>5,254,128</b>	<b>435,232</b>	<b>(18,873)</b>	<b>5,670,487</b>	<b>6,030,674</b>
Pledges receivable, long-term, net of allowance for doubtful accounts and discount	177,573	-	-	177,573	264,631
Investments, long-term	1,542,028	7,549	-	1,549,577	2,088,380
Property, plant and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	15,159,443	-	-	15,159,443	15,169,320
Furniture and equipment	9,573,732	-	-	9,573,732	9,481,242
	24,853,175	-	-	24,853,175	24,770,562
Less accumulated depreciation	(20,011,324)	-	-	(20,011,324)	(19,210,593)
	4,841,851	-	-	4,841,851	5,559,969
Construction in progress	1,897,127	-	-	1,897,127	1,103,882
<b>Net property, plant and equipment</b>	<b>6,738,978</b>	<b>-</b>	<b>-</b>	<b>6,738,978</b>	<b>6,663,851</b>
<b>Total assets</b>	<b>\$ 13,712,707</b>	<b>\$ 442,781</b>	<b>\$ (18,873)</b>	<b>\$ 14,136,615</b>	<b>\$ 15,047,536</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable	\$ 278,000	\$ -	\$ -	\$ 278,000	\$ 117,380
Accrued liabilities:					
Salaries and wages	364,445	-	-	364,445	329,687
Taxes other than income	83,735	-	-	83,735	22,833
Other	250,452	-	-	250,452	216,266
Payables to affiliates	18,873	-	(18,873)	-	-
Deposits	426,396	-	-	426,396	441,244
Deferred revenue	537,720	-	-	537,720	466,412
Current portion of Paycheck Protection Program loans	-	-	-	-	39,865
<b>Total current liabilities</b>	<b>1,959,621</b>	<b>-</b>	<b>(18,873)</b>	<b>1,940,748</b>	<b>1,633,687</b>
Long-term debt, net of current portion and deferred financing costs	6,597,840	-	-	6,597,840	6,594,489
Paycheck Protection Program loans, net of current portion	-	-	-	-	3,725,035
<b>Total liabilities</b>	<b>8,557,461</b>	<b>-</b>	<b>(18,873)</b>	<b>8,538,588</b>	<b>11,953,211</b>
Commitments and contingencies					
Net assets:					
Without donor restrictions	3,318,422	(27,395)	-	3,291,027	1,240,207
With donor restrictions	1,836,824	470,176	-	2,307,000	1,854,118
<b>Total net assets</b>	<b>5,155,246</b>	<b>442,781</b>	<b>-</b>	<b>5,598,027</b>	<b>3,094,325</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,712,707</b>	<b>\$ 442,781</b>	<b>\$ (18,873)</b>	<b>\$ 14,136,615</b>	<b>\$ 15,047,536</b>

**Marines' Memorial Association and Affiliate**

**Consolidating Statement of Activities  
Year Ended June 30, 2022  
(With Comparative Totals for 2021)**

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2022	Total 2021
Revenues and support without donor restrictions:					
Rooms	\$ 2,969,402	\$ -	\$ -	\$ 2,969,402	\$ 606,559
Food and beverage	1,517,263	-	-	1,517,263	103,743
Memorabilia	12,395	-	-	12,395	13,590
Space rentals	75,283	-	-	75,283	23,981
Investment income	(97,351)	419	-	(96,932)	66,012
Membership	691,787	-	-	691,787	709,239
Contributions	2,657,216	319,275	(460,000)	2,516,491	2,368,400
In-kind support	-	113,159	(113,159)	-	-
Paycheck Protection Program loan forgiveness	3,762,729	-	-	3,762,729	-
Employee Retention Tax Credit contributions	428,277	-	-	428,277	-
Miscellaneous	105,668	190	-	105,858	3,599
Net assets released from restrictions	310,747	640	-	311,387	219,941
<b>Total revenues and support without donor restrictions</b>	<b>12,433,416</b>	<b>433,683</b>	<b>(573,159)</b>	<b>12,293,940</b>	<b>4,115,064</b>
Revenues and support with donor restrictions:					
Contributions	641,811	122,458	-	764,269	529,635
Net assets released from restrictions	(310,747)	(640)	-	(311,387)	(219,941)
<b>Total revenues and support with donor restrictions</b>	<b>331,064</b>	<b>121,818</b>	<b>-</b>	<b>452,882</b>	<b>309,694</b>
<b>Total revenues and support</b>	<b>12,764,480</b>	<b>555,501</b>	<b>(573,159)</b>	<b>12,746,822</b>	<b>4,424,758</b>
Expenses:					
Program services	7,861,026	464,900	(460,000)	7,865,926	5,323,835
Supporting services:					
Management and general	1,806,401	80,787	(80,787)	1,806,401	1,243,975
Fundraising	570,793	32,372	(32,372)	570,793	458,564
<b>Total expenses</b>	<b>10,238,220</b>	<b>578,059</b>	<b>(573,159)</b>	<b>10,243,120</b>	<b>7,026,374</b>
<b>Change in net assets</b>	<b>2,526,260</b>	<b>(22,558)</b>	<b>-</b>	<b>2,503,702</b>	<b>(2,601,616)</b>
Net assets, beginning of year	2,628,986	465,339	-	3,094,325	5,695,941
Net assets, end of year	\$ 5,155,246	\$ 442,781	\$ -	\$ 5,598,027	\$ 3,094,325