

Marines' Memorial Association and Affiliate

Consolidated Financial Report
June 30, 2017

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RSM US LLP

Independent Auditor's Report

To the 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, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Statements of Financial Position and Activities

Our audits were conducted for the purpose of forming an opinion on the 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 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

San Francisco, California
September 27, 2017

Marines' Memorial Association and Affiliate

**Consolidated Statements of Financial Position
June 30, 2017 and 2016**

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,815,315	\$ 887,524
Investments, current	2,089,098	1,932,512
Accounts receivable, net of allowance for doubtful accounts of \$3,000 in 2017 and 2016	204,644	141,953
Interest receivable	3,446	3,446
Inventories	204,990	214,693
Prepaid expenses	110,706	155,234
Total current assets	4,428,199	3,335,362
Investments, long-term	883,531	614,879
Property and equipment:		
Land	120,000	120,000
Building and improvements	16,715,268	17,897,348
Furniture and equipment	9,343,576	9,499,225
	26,178,844	27,516,573
Less accumulated depreciation	(16,913,066)	(17,047,869)
	9,265,778	10,468,704
Construction in progress	3,923	5,000
Net property and equipment	9,269,701	10,473,704
Total assets	\$ 14,581,431	\$ 14,423,945
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ -	\$ 3,000,000
Accounts payable	410,712	332,555
Accrued liabilities:		
Salaries and wages	1,040,448	957,608
Taxes other than income	109,998	103,879
Other	277,743	315,631
Deposits	653,938	471,333
Total current liabilities	2,492,839	5,181,006
Long-term debt	3,000,000	-
Total liabilities	5,492,839	5,181,006
Commitments and contingencies		
Net assets:		
Unrestricted	8,441,106	8,675,629
Temporarily restricted	647,486	567,310
Total net assets	9,088,592	9,242,939
Total liabilities and net assets	\$ 14,581,431	\$ 14,423,945

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

**Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016**

	2017	2016
Unrestricted revenues and support:		
Rooms	\$ 6,916,104	\$ 6,671,020
Food and beverage	5,351,732	5,051,439
Theatre	611,410	499,882
Memorabilia	49,241	53,616
Space rentals	240,204	238,096
Investment income	387,280	79,319
Contributions	3,906,431	3,143,105
Miscellaneous	235,183	246,384
Net assets released from restriction	141,517	289,588
Total unrestricted revenues and support	17,839,102	16,272,449
Operating expenses:		
Departmental costs and expenses:		
Rooms	3,469,885	3,328,225
Food and beverage	5,187,008	5,137,678
Foundation, including Theatre	556,760	442,234
Memorabilia	36,123	37,493
Other expense	271,224	267,743
Total departmental costs and expenses	9,521,000	9,213,373
Increase before undistributed operating expenses	8,318,102	7,059,076
Undistributed operating expenses:		
Membership and development	2,416,018	2,299,633
Fundraising	604,004	574,908
Administrative and general	1,422,799	1,381,597
Depreciation	1,457,322	1,401,308
Energy costs	622,745	594,628
Advertising	721,967	693,074
Repairs and maintenance	493,423	473,069
Information technology	466,333	294,581
Insurance	185,559	180,886
Property taxes	162,455	164,456
Total undistributed operating expenses	8,552,625	8,058,140
Decrease in unrestricted net assets	(234,523)	(999,064)
Changes in temporarily restricted net assets:		
Donations, scholarships	102,700	119,275
Donations, other programs	118,614	159,100
Investment income	379	377
Net assets released from restriction, funding of scholarships	(55,000)	(113,870)
Net assets released from restriction, other programs	(86,517)	(175,718)
Decrease (increase) in temporarily restricted net assets	80,176	(10,836)
Change in net assets	(154,347)	(1,009,900)
Net assets, beginning of year	9,242,939	10,252,839
Net assets, end of year	\$ 9,088,592	\$ 9,242,939

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (154,347)	\$ (1,009,900)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,457,322	1,401,308
Net realized and unrealized (gain) loss on investments	(341,164)	34,186
Stock donations	(17,757)	(6,537)
(Increase) decrease in operating assets:		
Accounts receivable	(62,691)	39,338
Interest receivable	-	19
Inventories	9,703	(22,768)
Prepaid expenses	44,528	76,588
Increase (decrease) in operating liabilities:		
Accounts payable	78,157	(44,827)
Accrued salaries and wages	82,840	(63,204)
Accrued taxes other than income	6,119	(95,685)
Accrued other	(37,888)	(1,484)
Deposits	182,605	35,057
Net cash provided by operating activities	1,247,427	342,091
Cash flows from investing activities:		
Proceeds from sale of investments	1,047,465	289,984
Purchase of investments	(1,113,782)	(147,102)
Purchase of property and equipment	(253,319)	(1,433,109)
Net cash used in investing activities	(319,636)	(1,290,227)
Cash flows from financing activities:		
(Repayments) borrowings on line of credit	(3,000,000)	700,000
Borrowings on long-term debt	3,000,000	-
Net cash provided by financing activities	-	700,000
Net increase (decrease) in cash and cash equivalents	927,791	(248,136)
Cash and cash equivalents, beginning of year	887,524	1,135,660
Cash and cash equivalents, end of year	\$ 1,815,315	\$ 887,524
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 99,750	\$ 86,620
Supplemental schedule of noncash investing activities:		
Donation of stocks	\$ 17,757	\$ 6,537

See notes to consolidated financial statements.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

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

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

A summary of significant accounting policies follows:

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

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

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

Unrestricted contributions are recorded in the period received. Individuals are entitled to a benefactor membership designation within the Association for a contribution of \$2,500 or more. Benefactor members are not required to make any additional annual contributions to remain a member of the Association. These contributions are recognized as income in the period received, as the future service fees to be paid by the member are expected to cover the costs of providing such services. Benefactor membership sales has been discontinued as of December 31, 2016.

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.

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

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

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

Permanently restricted net assets are contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Association. There were no permanently restricted net assets at June 30, 2017 or 2016.

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

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

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

The Association had an agreement with the San Francisco Fleet Week Association (the Fleet Week), a 501(c)(3) organization, to fundraise and manage the Fleet Week's operations. Other receivables consisted of expenses incurred on behalf of the Fleet Week such as salary, director meetings and fundraising expenditures. The Association will be reimbursed by the Fleet Week at the end of fundraising operations, which is approximately in November of each year. Certain management employees of the Association are members of the Board of Directors of the San Francisco Fleet Week Association. Effective January 1, 2017, the Association ceased to provide fiduciary responsibilities to Fleet Week upon approval by the Board of Directors. Total receivables from the Fleet Week amounted to \$0 and \$6,431 as of June 30, 2017 and 2016, respectively, and are included in accounts receivable on the consolidated statements of financial position.

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

Investments: Investments consist of cash funds for investing, certificates of deposit, marketable equity and debt securities, and mutual funds. All are presented in the consolidated financial statements at fair value, except for cash and certificates of deposit, which are presented at carrying value which approximates 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.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

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

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

Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount the carrying amount of the assets exceeds their estimated fair value. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There were no impairment losses recorded for the years ended June 30, 2017 or 2016.

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

Marines' Memorial Association and its affiliate have implemented the guidance for income taxes in accordance with Accounting Standards Codification Topic 740 as it relates to Accounting for Uncertainty in Income Taxes, which clarifies the treatment of the entities' position of accounting for income taxes recognized in the consolidated financial statements. The guidance also prescribes a recognition threshold and measurement standard for the consolidated financial statement recognition and measurement of an income tax position taken or expected to be taken in the tax return. In addition, it provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management evaluated the entities' tax positions and concluded that the entities have no uncertain tax positions at June 30, 2017 or 2016. 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 2014.

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

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

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

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

	2017	2016
Mission services	\$ 2,474,788	\$ 2,349,789
Hotel services	12,851,704	12,151,502
Theatre services	666,902	536,233
General and administrative	1,476,227	1,659,081
Fundraising	604,004	574,908
	<u>\$ 18,073,625</u>	<u>\$ 17,271,513</u>

Recently issued accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with members and customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a member or customer obtains control of a good or service. A member or customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risk and rewards, as it is considered in current guidance. The Association will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. ASU 2014-09, as deferred by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented, with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Association has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on for fiscal years beginning after December 15, 2019, with early adoption permitted. The Association is in the process of evaluating the impact of this new guidance.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

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

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the requirements for financial statements to require a not-for-profit entity (NFP) to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period rather than the three classes currently required, and on the face of the statement of activities the amount of the change in each of the two classes of net assets. An NFP will now report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*. In addition, an NFP will be required to present the amounts of expenses by both their natural classification and their functional classification. Additional qualitative and quantitative disclosure information on the NFP's liquidity and availability of the NFP's financial assets will be required, as well as the elimination of the requirement to present or disclose the indirect method (reconciliation) if the NFP uses the direct method for the presentation of the statement of cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, with early application permitted, applied on a retrospective basis in the year adopted. The Association is currently evaluating the effect the adoption of this standard will have on its consolidated 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 December 15, 2018. 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 consolidated financial statements.

Reclassification of certain expenses: Certain expenses on the consolidated statement of activities for the year ended June 30, 2016, have been reclassified, with no effect on changes in net assets, to be consistent with the classifications adopted for the year ended June 30, 2017.

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

Use of estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Association has evaluated subsequent events through September 27, 2017, the date on which the consolidated 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:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash funds for investing	\$ 187,179	\$ 187,179	\$ 9,080	\$ 9,080
Exchange-traded funds	207,065	648,142	638,134	916,362
Mutual funds	691,148	1,060,548	753,508	931,476
Corporate bonds	130,251	131,165	161,251	167,089
Certificates of deposit	937,874	945,595	717,251	523,384
	<u>\$ 2,153,517</u>	<u>\$ 2,972,629</u>	<u>\$ 2,279,224</u>	<u>\$ 2,547,391</u>

Investment return consists of the following at June 30:

	2017		
	Unrestricted	Temporarily Restricted	Total
Interest	\$ 17,056	\$ 379	\$ 17,435
Dividends	29,060	-	29,060
Net realized and unrealized gains on investments	341,164	-	341,164
	<u>\$ 387,280</u>	<u>\$ 379</u>	<u>\$ 387,659</u>

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

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

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.

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

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

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

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

There have been no changes to the valuation methodologies as of June 30, 2017 or 2016.

Description	Recorded at June 30, 2017	Fair Value Measurements at June 30, 2017		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 131,165	\$ 131,165	\$ -	\$ -
Stocks	648,142	648,142	-	-
Mutual funds	1,060,548	1,060,548	-	-
	<u>\$ 1,839,855</u>	<u>\$ 1,839,855</u>	<u>\$ -</u>	<u>\$ -</u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

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

Note 3. Net Assets

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

	2017	2016
Aid and assist program	\$ 33,165	\$ 22,233
Care package program	58,930	66,226
Gold star	17,309	-
Living memorial	850	-
Scholarship funds	537,232	478,851
	<u>\$ 647,486</u>	<u>\$ 567,310</u>

Note 4. Releases From Restriction

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

	2017	2016
Aid and assist program	\$ 3,963	\$ 11,844
Care package program	7,444	16,048
Gold star events	39,574	147,826
Living memorial	15,021	-
Capital improvement	5,750	-
Education and historic	3,593	-
Theatre	11,172	-
Scholarship funds	55,000	113,870
	<u>\$ 141,517</u>	<u>\$ 289,588</u>

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 5. Retirement Plan

The Association has made available the Marines' Memorial 401(k) Retirement Plan for the benefit of eligible employees, as defined. Employees who elect to participate may make contributions from 2 percent up to the maximum of their eligible compensation allowed by law, and the Association may match up to 5 percent. Total matching contributions were \$267,570 and \$262,057 for the years ended June 30, 2017 and 2016, respectively.

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 contains a provision for percentage rent of 10 percent of net revenue over \$1.5 million, as defined in the lease. There was no percentage rent earned for the years ended June 30, 2017 or 2016.

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

Years ending June 30:	
2018	\$ 241,680
2019	200,004
2020	74,976
2021	74,976
2022	70,438
Thereafter	83,559
	<u>\$ 745,633</u>

Rental income was \$240,204 and \$238,096 for the years ended June 30, 2017 and 2016, respectively.

Note 7. Debt

The Association entered into a \$3,000,000 term loan agreement with First Republic Bank on December 7, 2016. The proceeds from the loan was used to repay the \$3,000,000 outstanding balance on an unsecured revolving line of credit with Bank of the West, which expired in December 2016. The loan requires 60 monthly interest-only payments at an interest rate of 3.15 percent, beginning on January 7, 2017. Beginning January 7, 2022, a monthly principal and interest payment of \$20,964 will be due for 23 months, with interest being calculated using the lesser of the one-month London Interbank Offered Rate (LIBOR) or 3.15 percent. A balloon payment for the remaining outstanding principal will be due on December 7, 2023. The loan agreement contains various financial covenants. The total balance outstanding on the new term loan as of June 30, 2017 was \$3,000,000. The outstanding balance on the old line of credit as of June 30, 2016 was \$3,000,000.

Marines' Memorial Association and Affiliate

Notes to Consolidated Financial Statements

Note 7. Debt (Continued)

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

Years ending June 30:		
2018	\$	-
2019		-
2020		-
2021		-
2022		79,051
Thereafter		2,920,949
		<u>\$ 3,000,000</u>

On December 7, 2016, the Association also entered into a line of credit with First Republic Bank, which provides for a credit line of up to \$2,000,000. Interest is payable monthly at a fluctuating interest rate per annum based on the U.S prime rate (3.75 percent as of June 30, 2017) as published in the Wall Street Journal. The line of credit expires on December 7, 2017. As of June 30, 2017, there was no outstanding balance on the line of credit.

Supplementary Information

Marines' Memorial Association and Affiliate

Consolidating Statement of Financial Position

June 30, 2017

With Comparative Totals for 2016

	2017			2016	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,738,816	\$ 76,499	\$ -	\$ 1,815,315	\$ 887,524
Investments, current	2,089,098	-	-	2,089,098	1,932,512
Accounts receivable, net of allowance for doubtful accounts of \$3,000 in 2017 and 2016	248,202	340	(43,898)	204,644	141,953
Interest receivable	3,446	-	-	3,446	3,446
Inventories	204,990	-	-	204,990	214,693
Prepaid expenses	110,706	-	-	110,706	155,234
Total current assets	4,395,258	76,839	(43,898)	4,428,199	3,335,362
Investments, long-term	883,531	-	-	883,531	614,879
Property and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	16,715,268	-	-	16,715,268	17,897,348
Furniture and equipment	9,343,576	-	-	9,343,576	9,499,225
	26,178,844	-	-	26,178,844	27,516,573
Less accumulated depreciation	(16,913,066)	-	-	(16,913,066)	(17,047,869)
	9,265,778	-	-	9,265,778	10,468,704
Construction in progress	3,923	-	-	3,923	5,000
Net property and equipment	9,269,701	-	-	9,269,701	10,473,704
Total assets	\$ 14,548,490	\$ 76,839	\$ (43,898)	\$ 14,581,431	\$ 14,423,945
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000
Accounts payable	408,560	46,050	(43,898)	410,712	332,555
Accrued liabilities:					
Salaries and wages	1,040,448	-	-	1,040,448	957,608
Taxes other than income	109,998	-	-	109,998	103,879
Other	277,743	-	-	277,743	315,631
Deposits	627,380	26,558	-	653,938	471,333
Total current liabilities	2,464,129	72,608	(43,898)	2,492,839	5,181,006
Long-term debt	3,000,000	-	-	3,000,000	-
Total liabilities	5,464,129	72,608	(43,898)	5,492,839	5,181,006
Commitments and contingencies					
Net assets:					
Unrestricted	8,465,759	(24,653)	-	8,441,106	8,675,629
Temporarily restricted	618,602	28,884	-	647,486	567,310
Total net assets	9,084,361	4,231	-	9,088,592	9,242,939
Total liabilities and net assets	\$ 14,548,490	\$ 76,839	\$ (43,898)	\$ 14,581,431	\$ 14,423,945

Marines' Memorial Association and Affiliate

**Consolidating Statement of Activities
Year Ended June 30, 2017
With Comparative Totals for 2016**

	2017			2016	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total	Total
Unrestricted revenues and support:					
Rooms	\$ 6,916,104	\$ -	\$ -	\$ 6,916,104	\$ 6,671,020
Food and beverage	5,351,732	-	-	5,351,732	5,051,439
Theatre	-	611,410	-	611,410	499,882
Memorabilia	49,241	-	-	49,241	53,616
Space rentals	390,204	-	(150,000)	240,204	238,096
Investment return	387,280	-	-	387,280	79,319
Contributions	3,837,457	68,974	-	3,906,431	3,143,105
Miscellaneous	232,814	2,369	-	235,183	246,384
Net assets released from restriction	129,085	12,432	-	141,517	289,588
Total unrestricted revenues and support	17,293,917	695,185	(150,000)	17,839,102	16,272,449
Operating expenses:					
Departmental costs and expenses:					
Rooms	3,469,885	-	-	3,469,885	3,328,225
Food and beverage	5,187,008	-	-	5,187,008	5,137,678
Foundation, including Theatre	-	706,760	(150,000)	556,760	442,234
Memorabilia	36,123	-	-	36,123	37,493
Other expense	271,224	-	-	271,224	267,743
Total departmental costs and expenses	8,964,240	706,760	(150,000)	9,521,000	9,213,373
Increase before undistributed operating expenses	8,329,677	(11,575)	-	8,318,102	7,059,076
Undistributed operating expenses:					
Membership, development and fundraising	2,396,766	19,252	-	2,416,018	2,299,633
Fundraising	604,004	-	-	604,004	574,908
Administrative and general	1,422,799	-	-	1,422,799	1,381,597
Depreciation	1,457,322	-	-	1,457,322	1,401,308
Energy costs	622,745	-	-	622,745	594,628
Advertising	721,967	-	-	721,967	693,074
Repairs and maintenance	493,423	-	-	493,423	473,069
Information technology	466,333	-	-	466,333	294,581
Insurance	185,559	-	-	185,559	180,886
Property taxes	162,455	-	-	162,455	164,456
Total undistributed operating expenses	8,533,373	19,252	-	8,552,625	8,058,140
Decrease in unrestricted net assets	(203,696)	(30,827)	-	(234,523)	(999,064)
Changes in temporarily restricted net assets:					
Donations, scholarships	102,700	-	-	102,700	119,275
Donations, other programs	77,298	41,316	-	118,614	159,100
Investment income	379	-	-	379	377
Net assets released from restriction, funding of scholarships	(55,000)	-	-	(55,000)	(113,870)
Net assets released from restriction, other programs	(74,085)	(12,432)	-	(86,517)	(175,718)
Decrease in temporarily restricted net assets	51,292	28,884	-	80,176	(10,836)
Change in net assets	(152,404)	(1,943)	-	(154,347)	(1,009,900)
Net assets, beginning of year	9,236,765	6,174	-	9,242,939	10,252,839
Net assets, end of year	\$ 9,084,361	\$ 4,231	\$ -	\$ 9,088,592	\$ 9,242,939