

# **Marines' Memorial Association and Affiliate**

Consolidated Financial Report  
June 30, 2018

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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, 2018 and 2017, 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, Marines' Memorial Foundation, as of June 30, 2018 and 2017, 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 consolidating 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 18, 2018

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Financial Position  
June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,325,530	\$ 1,815,315
Investments, current	2,622,384	2,089,098
Accounts receivable, net of allowance for doubtful accounts of \$3,000	189,741	204,644
Interest receivable	9,196	3,446
Inventories	190,609	204,990
Prepaid expenses	112,883	110,706
<b>Total current assets</b>	<b>4,450,343</b>	<b>4,428,199</b>
Investments, long-term	658,840	883,531
Property and equipment:		
Land	120,000	120,000
Building and improvements	16,520,756	16,715,268
Furniture and equipment	9,101,239	9,343,576
	25,741,995	26,178,844
Less accumulated depreciation	(17,639,512)	(16,913,066)
	8,102,483	9,265,778
Construction in progress	-	3,923
<b>Net property and equipment</b>	<b>8,102,483</b>	<b>9,269,701</b>
<b>Total assets</b>	<b>\$ 13,211,666</b>	<b>\$ 14,581,431</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 363,325	\$ 410,712
Accrued liabilities:		
Salaries and wages	1,065,024	1,040,448
Taxes other than income	126,974	109,998
Other	310,702	277,743
Deposits	649,388	653,938
<b>Total current liabilities</b>	<b>2,515,413</b>	<b>2,492,839</b>
Long-term debt	3,000,000	3,000,000
<b>Total liabilities</b>	<b>5,515,413</b>	<b>5,492,839</b>
Commitments and contingencies		
Net assets:		
Unrestricted	6,966,624	8,441,106
Temporarily restricted	729,629	647,486
<b>Total net assets</b>	<b>7,696,253</b>	<b>9,088,592</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,211,666</b>	<b>\$ 14,581,431</b>

See notes to consolidated financial statements.

## Marines' Memorial Association and Affiliate

### Consolidated Statements of Activities Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted revenues and support:		
Rooms	\$ 7,166,217	\$ 6,916,104
Food and beverage	5,379,347	5,351,732
Theatre	587,421	611,410
Memorabilia	45,671	49,241
Space rentals	242,506	240,204
Investment income	340,197	387,280
Membership	1,580,660	3,145,939
Contributions	1,324,973	760,492
Miscellaneous	220,413	235,183
Net assets released from restriction	268,955	141,517
<b>Total unrestricted revenues and support</b>	<b>17,156,360</b>	<b>17,839,102</b>
Operating expenses:		
Departmental costs and expenses:		
Rooms	3,666,149	3,469,885
Food and beverage	5,281,655	5,187,008
Foundation, including theatre	609,619	556,760
Memorabilia	33,483	36,123
Membership and development	2,114,398	2,284,631
Other expense	286,128	271,224
<b>Total departmental costs and expenses</b>	<b>11,991,432</b>	<b>11,805,631</b>
<b>Increase before undistributed operating expenses</b>	<b>5,164,928</b>	<b>6,033,471</b>
Undistributed operating expenses:		
Fundraising	523,829	604,004
Administrative and general	1,495,049	1,422,799
Depreciation	1,371,095	1,457,322
Energy costs	678,660	622,745
Advertising	721,370	721,967
Repairs and maintenance	518,678	493,423
Information technology	566,552	466,333
Transition expense	426,294	131,387
Insurance	198,471	185,559
Property taxes	139,412	162,455
<b>Total undistributed operating expenses</b>	<b>6,639,410</b>	<b>6,267,994</b>
<b>Decrease in unrestricted net assets</b>	<b>(1,474,482)</b>	<b>(234,523)</b>
Changes in temporarily restricted net assets:		
Donations, scholarships	192,347	102,700
Donations, other programs	149,759	118,614
Investment income	8,992	379
Net assets released from restriction, funding of scholarships	(125,000)	(55,000)
Net assets released from restriction, other programs	(143,955)	(86,517)
<b>Increase in temporarily restricted net assets</b>	<b>82,143</b>	<b>80,176</b>
<b>Change in net assets</b>	<b>(1,392,339)</b>	<b>(154,347)</b>
Net assets, beginning of year	9,088,592	9,242,939
Net assets, end of year	<b>\$ 7,696,253</b>	<b>\$ 9,088,592</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,392,339)	\$ (154,347)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,371,095	1,457,322
Net realized and unrealized gain on investments	(225,487)	(341,164)
Stock donations	(34,493)	(17,757)
(Increase) decrease in operating assets:		
Accounts receivable	14,903	(62,691)
Interest receivable	(5,750)	-
Inventories	14,381	9,703
Prepaid expenses	(2,177)	44,528
Increase (decrease) in operating liabilities:		
Accounts payable	(47,387)	78,157
Accrued salaries and wages	24,576	82,840
Accrued taxes other than income	16,976	6,119
Accrued other	32,959	(37,888)
Deposits	(4,550)	182,605
<b>Net cash (used in) provided by operating activities</b>	<b>(237,293)</b>	<b>1,247,427</b>
Cash flows from investing activities:		
Proceeds from sale of investments	607,935	1,047,465
Purchase of investments	(656,550)	(1,113,782)
Purchase of property and equipment	(203,877)	(253,319)
<b>Net cash used in investing activities</b>	<b>(252,492)</b>	<b>(319,636)</b>
Cash flows from financing activities:		
Repayments on line of credit	-	(3,000,000)
Borrowings on long-term debt	-	3,000,000
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>-</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(489,785)</b>	<b>927,791</b>
Cash and cash equivalents, beginning of year	1,815,315	887,524
Cash and cash equivalents, end of year	<u>\$ 1,325,530</u>	<u>\$ 1,815,315</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 94,443</u>	<u>\$ 99,750</u>
Supplemental schedule of noncash investing activities:		
Donation of stocks	<u>\$ 34,493</u>	<u>\$ 17,757</u>

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 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, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted using an appropriate discount rate to obtain the present value of the receivable amount. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restriction, if any, on the contributions.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires - that is, when a stipulated time restriction ends or purpose restriction is accomplished - 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.

**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.

**Membership transactions:** Membership transactions consist of annual memberships as well as lifetime memberships (Benefactor). Annual memberships are recognized as income when the member application is finalized. Through December 31, 2016, individuals were entitled to a Benefactor membership designation within the Association for a contribution of \$2,500 or more. Benefactor members were not required to make any additional annual contributions to remain a member of the Association. These contributions were recognized as income in the period received, as the future service fees to be paid by the members are expected to cover the costs of providing such services. Benefactor membership sales were discontinued as of December 31, 2016, and the program was restarted on July 1, 2018.



## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

Of total membership fees recognized for 2018 and 2017, exchange transactions, or transactions for which members are deemed to have received value for fees paid, are estimated at approximately \$1,000,000 and \$1,074,000, respectively. The difference between the amount paid and the exchange transaction is recognized as an unrestricted contribution to the Association.

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

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, 2018 or 2017.

**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.

**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 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. Realized and unrealized gains and losses are reflected on the consolidated statements of activities as investment income. Investments maturing within the next 12 months are categorized as current assets on the consolidated statements of financial position.

**Property and equipment:** Property and equipment 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; 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.

## 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)

**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, 2018 or 2017.

**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, 2018 or 2017. 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 2015.

**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.

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

	2018	2017
Mission services	\$ 2,600,670	\$ 2,474,788
Hotel services	13,234,745	12,851,704
Theatre services	722,024	666,902
General and administrative	1,549,574	1,476,227
Fundraising	523,829	604,004
	<u>\$ 18,630,842</u>	<u>\$ 18,073,625</u>

## 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)

**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 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 obtains control of a good or service. A member 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 updated standard will have on its consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*, which supersedes Topic 840, *Leases*. Under the new guidance, lessees will be required to recognize at the commencement date for all leases (with the exception of lease terms of 12 months or less for which there is not an option to purchase the underlying asset) (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This standard will be effective for fiscal years beginning after December 15, 2019, with early application permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Association is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Association is currently evaluating the impact the adoption of this guidance 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 January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Association is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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

**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 18, 2018, the date on which the consolidated financial statements were available to be issued.

#### Note 2. Investments

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash funds for investing	\$ 5,171	\$ 5,171	\$ 187,179	\$ 187,179
Exchange-traded funds	222,391	753,354	207,065	648,142
Mutual funds	769,375	1,298,206	691,148	1,060,548
Corporate bonds	92,891	91,483	130,251	131,165
Certificates of deposit	1,169,000	1,133,010	937,874	945,595
	<u>\$ 2,258,828</u>	<u>\$ 3,281,224</u>	<u>\$ 2,153,517</u>	<u>\$ 2,972,629</u>

Investment return consists of the following at June 30:

	2018		
	Unrestricted	Temporarily Restricted	Total
Interest	\$ 21,152	\$ 8,992	\$ 30,144
Dividends	93,558	-	93,558
Net realized and unrealized gains on investments	225,487	-	225,487
	<u>\$ 340,197</u>	<u>\$ 8,992</u>	<u>\$ 349,189</u>

  

	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>

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 2. Investments (Continued)

**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.

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

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

**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, 2018 or 2017.

**Marines' Memorial Association and Affiliate**

**Notes to Consolidated Financial Statements**

**Note 2. Investments (Continued)**

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

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	-	-
Certificates of deposit	945,595	945,595	-	-
	<u>\$ 2,785,450</u>	<u>\$ 2,785,450</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 3. Net Assets**

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

	2018	2017
Aid and assist program	\$ 58,000	\$ 33,165
Care package program	48,052	58,930
Capital improvement	150	-
Gold star events	9,007	17,309
Living memorial	850	850
Scholarship funds	613,570	537,232
	<u>\$ 729,629</u>	<u>\$ 647,486</u>

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 4. Releases From Restriction

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

	2018	2017
Aid and assist program	\$ 5,975	\$ 3,963
Care package program	10,730	7,444
Gold star events	111,083	39,574
Living memorial	5,608	15,021
Capital improvement	-	5,750
Education and historic	3,900	3,593
Birthday ball	550	-
Theatre	6,109	11,172
Scholarship funds	125,000	55,000
	<u>\$ 268,955</u>	<u>\$ 141,517</u>

#### 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 \$264,734 and \$267,570 for the years ended June 30, 2018 and 2017, 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 \$1,500,000, as defined in the lease. There was no percentage rent earned for the years ended June 30, 2018 or 2017.

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

Years ending June 30:	
2019	\$ 202,851
2020	76,068
2021	76,068
2022	71,466
2023	48,456
Thereafter	36,342
	<u>\$ 511,251</u>

Rental income was \$242,506 and \$240,204 for the years ended June 30, 2018 and 2017, respectively.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### 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 were 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 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. As of June 30, 2018, the Association did not meet its debt service coverage ratio of 1.25 to 1.00 and therefore obtained a waiver from First Republic Bank. The total balance outstanding on the term loan as of June 30, 2018 and 2017, was \$3,000,000.

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

Years ending June 30:	
2019	\$ -
2020	-
2021	-
2022	79,051
2023	161,881
Thereafter	2,759,068
	<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 (4.5 percent as of June 30, 2018) as published in the Wall Street Journal. The line of credit expires on December 7, 2018. As of June 30, 2018 and 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, 2018  
With Comparative Totals for 2017**

	2018			2017	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,295,768	\$ 29,762	\$ -	\$ 1,325,530	\$ 1,815,315
Investments, current	2,622,384	-	-	2,622,384	2,089,098
Accounts receivable, net of allowance for doubtful accounts of \$3,000 in 2018 and 2017	228,821	-	(39,080)	189,741	204,644
Interest receivable	9,196	-	-	9,196	3,446
Inventories	190,609	-	-	190,609	204,990
Prepaid expenses	112,883	-	-	112,883	110,706
<b>Total current assets</b>	<b>4,459,661</b>	<b>29,762</b>	<b>(39,080)</b>	<b>4,450,343</b>	<b>4,428,199</b>
Investments, long-term	658,840	-	-	658,840	883,531
Property and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	16,520,756	-	-	16,520,756	16,715,268
Furniture and equipment	9,101,239	-	-	9,101,239	9,343,576
	25,741,995	-	-	25,741,995	26,178,844
Less accumulated depreciation	(17,639,512)	-	-	(17,639,512)	(16,913,066)
	8,102,483	-	-	8,102,483	9,265,778
Construction in progress	-	-	-	-	3,923
<b>Net property and equipment</b>	<b>8,102,483</b>	<b>-</b>	<b>-</b>	<b>8,102,483</b>	<b>9,269,701</b>
<b>Total assets</b>	<b>\$ 13,220,984</b>	<b>\$ 29,762</b>	<b>\$ (39,080)</b>	<b>\$ 13,211,666</b>	<b>\$ 14,581,431</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable	\$ 361,944	\$ 40,461	\$ (39,080)	\$ 363,325	\$ 410,712
Accrued liabilities:					
Salaries and wages	1,065,024	-	-	1,065,024	1,040,448
Taxes other than income	126,974	-	-	126,974	109,998
Other	310,702	-	-	310,702	277,743
Deposits	658,927	(9,539)	-	649,388	653,938
<b>Total current liabilities</b>	<b>2,523,571</b>	<b>30,922</b>	<b>(39,080)</b>	<b>2,515,413</b>	<b>2,492,839</b>
Long-term debt	3,000,000	-	-	3,000,000	3,000,000
<b>Total liabilities</b>	<b>5,523,571</b>	<b>30,922</b>	<b>(39,080)</b>	<b>5,515,413</b>	<b>5,492,839</b>
Commitments and contingencies					
Net assets:					
Unrestricted	6,965,976	648	-	6,966,624	8,441,106
Temporarily restricted	731,437	(1,808)	-	729,629	647,486
<b>Total net assets</b>	<b>7,697,413</b>	<b>(1,160)</b>	<b>-</b>	<b>7,696,253</b>	<b>9,088,592</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,220,984</b>	<b>\$ 29,762</b>	<b>\$ (39,080)</b>	<b>\$ 13,211,666</b>	<b>\$ 14,581,431</b>

**Marines' Memorial Association and Affiliate**

**Consolidating Statement of Activities  
Year Ended June 30, 2018  
With Comparative Totals for 2017**

	2018			2017	
	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total	Total
<b>Unrestricted revenues and support:</b>					
Rooms	\$ 7,166,217	\$ -	\$ -	\$ 7,166,217	\$ 6,916,104
Food and beverage	5,379,347	-	-	5,379,347	5,351,732
Theatre	-	587,421	-	587,421	611,410
Memorabilia	45,671	-	-	45,671	49,241
Space rentals	392,506	-	(150,000)	242,506	240,204
Investment return	340,197	-	-	340,197	387,280
Membership	1,580,660	-	-	1,580,660	3,145,939
Contributions	1,181,876	143,097	-	1,324,973	760,492
Miscellaneous	218,913	1,500	-	220,413	235,183
Net assets released from restriction	245,538	23,417	-	268,955	141,517
<b>Total unrestricted revenues and support</b>	<b>16,550,925</b>	<b>755,435</b>	<b>(150,000)</b>	<b>17,156,360</b>	<b>17,839,102</b>
<b>Operating expenses:</b>					
<b>Departmental costs and expenses:</b>					
Rooms	3,666,149	-	-	3,666,149	3,469,885
Food and beverage	5,281,655	-	-	5,281,655	5,187,008
Foundation, including theatre	601	759,018	(150,000)	609,619	556,760
Memorabilia	33,483	-	-	33,483	36,123
Membership and development	2,114,398	-	-	2,114,398	2,284,631
Other expense	286,128	-	-	286,128	271,224
<b>Total departmental costs and expenses</b>	<b>11,382,414</b>	<b>759,018</b>	<b>(150,000)</b>	<b>11,991,432</b>	<b>11,805,631</b>
<b>Increase (decrease) before undistributed operating expenses</b>	<b>5,168,511</b>	<b>(3,583)</b>	<b>-</b>	<b>5,164,928</b>	<b>6,033,471</b>
<b>Undistributed operating expenses:</b>					
Fundraising	523,829	-	-	523,829	604,004
Administrative and general	1,495,049	-	-	1,495,049	1,422,799
Depreciation	1,371,095	-	-	1,371,095	1,457,322
Energy costs	678,660	-	-	678,660	622,745
Advertising	721,370	-	-	721,370	721,967
Repairs and maintenance	518,678	-	-	518,678	493,423
Information technology	566,552	-	-	566,552	466,333
Transition expense	426,294	-	-	426,294	131,387
Insurance	198,471	-	-	198,471	185,559
Property taxes	139,412	-	-	139,412	162,455
<b>Total undistributed operating expenses</b>	<b>6,639,410</b>	<b>-</b>	<b>-</b>	<b>6,639,410</b>	<b>6,267,994</b>
<b>Decrease in unrestricted net assets</b>	<b>(1,470,899)</b>	<b>(3,583)</b>	<b>-</b>	<b>(1,474,482)</b>	<b>(234,523)</b>
<b>Changes in temporarily restricted net assets:</b>					
Donations, scholarships	176,847	15,500	-	192,347	102,700
Donations, other programs	143,650	6,109	-	149,759	118,614
Investment income	8,992	-	-	8,992	379
Net assets released from restriction, funding of scholarships	(125,000)	-	-	(125,000)	(55,000)
Net assets released from restriction, other programs	(120,538)	(23,417)	-	(143,955)	(86,517)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>83,951</b>	<b>(1,808)</b>	<b>-</b>	<b>82,143</b>	<b>80,176</b>
<b>Change in net assets</b>	<b>(1,386,948)</b>	<b>(5,391)</b>	<b>-</b>	<b>(1,392,339)</b>	<b>(154,347)</b>
Net assets, beginning of year	9,084,361	4,231	-	9,088,592	9,242,939
Net assets, end of year	\$ 7,697,413	\$ (1,160)	\$ -	\$ 7,696,253	\$ 9,088,592