

# **Marines' Memorial Association and Affiliate**

Consolidated Financial Report  
June 30, 2021

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## Independent Auditor's Report

Board of Directors  
Marines' Memorial Association and Affiliate

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marines' Memorial Association and its affiliate, Marines' Memorial Foundation, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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).

### 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, 2021 and 2020, 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating statements of financial position and activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Phoenix, Arizona  
September 9, 2021

## Marines' Memorial Association and Affiliate

### Consolidated Statements of Financial Position June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,792,945	\$ 4,214,833
Investments, current	1,748,400	1,985,223
Accounts receivable, net of allowance for doubtful accounts	26,111	46,561
Pledges receivable, current	179,545	171,900
Interest receivable	19,949	9,029
Inventories	160,735	188,132
Prepaid expenses	102,989	96,850
<b>Total current assets</b>	<b>6,030,674</b>	<b>7,154,958</b>
Pledges receivable, long-term, net of allowance for doubtful accounts and discount	264,631	442,430
Investments, long-term	2,088,380	1,509,860
Property and equipment:		
Land	120,000	120,000
Building and improvements	15,169,320	15,725,974
Furniture and equipment	9,481,242	9,600,683
	24,770,562	25,446,657
Less accumulated depreciation	(19,210,593)	(18,913,013)
	5,559,969	6,533,644
Construction in progress	1,103,882	295,456
<b>Net property and equipment</b>	<b>6,663,851</b>	<b>6,829,100</b>
<b>Total assets</b>	<b>\$ 15,047,536</b>	<b>\$ 15,493,918</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 117,380	\$ 114,745
Accrued liabilities:		
Salaries and wages	329,687	403,056
Taxes other than income	22,833	4,791
Other	216,266	243,747
Deposits	441,244	314,372
Deferred revenue	466,412	428,928
Current portion of long-term debt	-	960,641
Current portion of Paycheck Protection Program loans	39,865	-
<b>Total current liabilities</b>	<b>1,633,687</b>	<b>2,470,280</b>
Long-term debt, net of current portion and deferred financing costs	6,594,489	5,562,797
Paycheck Protection Program loans, net of current portion	3,725,035	1,764,900
<b>Total liabilities</b>	<b>11,953,211</b>	<b>9,797,977</b>
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,240,207	4,151,517
With donor restrictions	1,854,118	1,544,424
<b>Total net assets</b>	<b>3,094,325</b>	<b>5,695,941</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,047,536</b>	<b>\$ 15,493,918</b>

See notes to consolidated financial statements.

**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Activities  
Years Ended June 30, 2021 and 2020**

	2021	2020
Revenues and support without donor restrictions:		
Rooms	\$ 606,559	\$ 5,268,483
Food and beverage	103,743	3,935,911
Theatre	-	405,264
Memorabilia	13,590	29,177
Space rentals	23,981	112,881
Investment income	66,012	132,603
Membership	709,239	844,201
Contributions	2,368,400	2,932,413
Miscellaneous	3,599	197,514
Net assets released from restrictions	219,941	456,839
<b>Total revenues and support without donor restrictions</b>	<b>4,115,064</b>	<b>14,315,286</b>
Revenues and support with donor restrictions:		
Contributions	529,635	1,302,687
Net assets released from restrictions	(219,941)	(456,839)
<b>Total revenues and support with donor restrictions</b>	<b>309,694</b>	<b>845,848</b>
<b>Total revenues and support</b>	<b>4,424,758</b>	<b>15,161,134</b>
Expenses:		
Program services	5,323,835	13,669,170
Supporting services:		
Management and general	1,243,975	1,879,342
Fundraising	458,564	607,267
<b>Total expenses</b>	<b>7,026,374</b>	<b>16,155,779</b>
<b>Change in net assets</b>	<b>(2,601,616)</b>	<b>(994,645)</b>
Net assets, beginning of year	5,695,941	6,690,586
Net assets, end of year	<b>\$ 3,094,325</b>	<b>\$ 5,695,941</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 Statement of Functional Expenses  
Year Ended June 30, 2020**

	Program Services	Management and General	Fundraising	Total
Functional expenses:				
Compensation	\$ 7,675,111	\$ 873,614	\$ 171,508	\$ 8,720,233
Depreciation	1,272,392	16,767	-	1,289,159
Utilities	590,793	7,384	-	598,177
Professional fees	177,962	146,760	163,812	488,534
Licenses and fees	15,606	490,606	-	506,212
Program supplies	360,535	-	-	360,535
Food and beverage	1,459,423	-	1,569	1,460,992
Events	265,814	-	-	265,814
Information systems	222,981	2,938	-	225,919
Advertising and marketing	245,909	-	42,648	288,557
Interest	346,335	4,564	-	350,899
Employee relations	-	167,210	-	167,210
Printing and postage	121,441	11,677	17,114	150,232
Repairs and maintenance	164,178	2,163	-	166,341
Insurance	168,522	2,221	-	170,743
Telephone	143,516	879	-	144,395
Taxes	132,797	17,861	-	150,658
Scholarships	105,000	-	-	105,000
Equipment rental	62,588	825	-	63,413
Member relations	42,531	-	186,191	228,722
Parking	729	44,532	-	45,261
Training and development	32,272	1,250	-	33,522
Board of Directors	-	37,698	-	37,698
Bad debt	-	11,841	19,000	30,841
Miscellaneous	62,735	38,552	5,425	106,712
<b>Total expenses</b>	<b>\$ 13,669,170</b>	<b>\$ 1,879,342</b>	<b>\$ 607,267</b>	<b>\$ 16,155,779</b>

See notes to consolidated financial statements.



**Marines' Memorial Association and Affiliate**

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (2,601,616)	\$ (994,645)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,172,750	1,289,159
Amortization of deferred financing costs	3,899	1,643
Net realized and unrealized loss (gain) on investments	13,307	(65,386)
Change in discount on long-term pledges receivable	(13,203)	34,070
(Increase) decrease in operating assets:		
Accounts receivable	20,450	197,449
Pledges receivable	183,357	(648,400)
Interest receivable	(10,920)	902
Inventories	27,397	5,914
Prepaid expenses	(6,139)	22,650
Increase (decrease) in operating liabilities:		
Accounts payable	2,635	(236,597)
Accrued salaries and wages	(73,369)	(792,605)
Accrued taxes other than income	18,042	(110,682)
Accrued other	70,821	(50,929)
Deposits	126,872	(258,048)
Deferred revenue	37,484	5,218
<b>Net cash used in operating activities</b>	<b>(1,028,233)</b>	<b>(1,600,287)</b>
Cash flows from investing activities:		
Proceeds from sale of investments	2,373,460	5,453,937
Purchase of investments	(2,728,464)	(4,129,236)
Purchase of property and equipment	(1,007,501)	(702,605)
<b>Net cash (used in) provided by investing activities</b>	<b>(1,362,505)</b>	<b>622,096</b>
Cash flows from financing activities:		
Borrowings on Paycheck Protection Program loans	2,000,000	1,764,900
Payments on long-term debt	-	(499,676)
Payment of deferred financing costs	(31,150)	-
<b>Net cash provided by financing activities</b>	<b>1,968,850</b>	<b>1,265,224</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(421,888)</b>	<b>287,033</b>
Cash and cash equivalents, beginning of year	4,214,833	3,927,800
Cash and cash equivalents, end of year	\$ 3,792,945	\$ 4,214,833
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 232,573	\$ 349,256
Supplemental disclosure of non cash flow information		
Accrued interest capitalized into principal balance of long-term debt	\$ 98,302	\$ -

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). 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.

**Reclassifications:** Certain balances within the prior-year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year consolidated financial statements, with no effect on net assets or changes in net assets.

**Cash and cash equivalents:** Cash and cash equivalents consist of cash and money market funds. The Association considers investments with maturities of three months or less at the time of purchase to be cash equivalents. The Association maintains certificates of deposit, which are fully insured by the Federal Deposit Insurance Corporation within the \$250,000 limit. The Association also maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to any significant credit risk related to cash.

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

## 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 and debt securities, and mutual funds. Certificates of deposit are presented in the consolidated financial statements at amortized cost. Marketable equity and debt 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 income. Investments maturing within the next 12 months are categorized as current assets on the consolidated statements of financial position.

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

**Valuation of long-lived assets:** The Association accounts for the valuation of long-lived assets under the Financial Accounting Standards Board (FASB), *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, 2021 or 2020.

**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 \$4,000 and \$2,000 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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 60 days of normal operating expenses which, on average, approximate \$1,200,000. Cash in excess of daily requirements is available to be invested in various investments with maturities designated to meet obligations as they come due. In addition, the Association, as more fully described in Note 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:

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 3,792,945	\$ 4,214,833
Accounts receivable, net	26,111	46,561
Pledges receivable, net	444,176	614,330
Interest receivable	19,949	9,029
Investments	3,836,780	3,495,083
Total financial assets	8,119,961	8,379,836
Less donor restrictions	(1,854,118)	(1,544,424)
Financial assets available to meet general expenditures within one year	<u>\$ 6,265,843</u>	<u>\$ 6,835,412</u>

**Revenue recognition:** The Association recognizes occupancy revenue 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.

The Association recognizes lease income in accordance with Accounting Standards Codification (ASC) 840, Leases.

Contribution revenue, including the contribution portion of membership revenue, is recognized in accordance with ASC 958, Not-for-Profit Entities.

**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 2021 and 2020, exchange transactions, or transactions for which members are deemed to have received value for fees paid, are estimated at approximately \$709,000 and \$844,000, respectively. The difference between the amount paid and the exchange transaction is recognized as a contribution without donor restrictions to the Association.

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

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions. Contributions of stock are recognized at fair value when received.

## 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)

**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 statement of functional expenses.

**Functional allocation of expenses:** The costs of program and supporting services activities have been summarized on a functional basis on the consolidated statements of activities. The consolidated 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.

**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, 2021 or 2020. 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 2018.

**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.

**Pending accounting pronouncements:** 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.

## 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)

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 new standard provides a number of practical expedients. The FASB voted, effective May 20, 2020, to extend the deadline for private companies one year, which would result in the standard being effective January 1, 2022. The Association has not yet evaluated the impact of this new guidance.

**Subsequent events:** The Association has evaluated subsequent events through September 9, 2021, 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. Two donors to this campaign accounted for 30% of total pledges receivable at June 30, 2021. Four donors to this campaign accounted for 49% of total pledges receivable at June 30, 2020.

The total of all pledges receivable as of June 30, 2021, matures as follows:

Due in fiscal years ending June 30:		
2022		\$ 179,545
2023		125,335
2024		81,900
2025		51,400
2026		10,600
Thereafter		<u>30,000</u>
		478,780
Less:		
Provision for estimated uncollectible pledges		(13,737)
Pledges receivable discount at an average rate of 2%		<u>(20,867)</u>
		<u>\$ 444,176</u>

#### Note 3. Investments

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

	2021		2020	
	Cost	Carrying Value	Cost	Carrying Value
Exchange-traded funds	\$ 248,926	\$ 278,284	\$ 244	\$ 258
Mutual funds	426,579	423,773	-	-
Corporate bonds	1,465,208	1,476,288	92,890	94,785
Other bonds	243,491	245,326	-	-
Certificates of deposit	1,413,109	1,413,109	3,400,040	3,400,040
	<u>\$ 3,797,313</u>	<u>\$ 3,836,780</u>	<u>\$ 3,493,174</u>	<u>\$ 3,495,083</u>

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### Note 3. Investments (Continued)

Investment return consists of the following at June 30:

	2021	2020
Interest	\$ 73,003	\$ 52,440
Dividends	6,316	14,777
Net realized and unrealized gains (losses) on investments	(13,307)	65,386
	<u>\$ 66,012</u>	<u>\$ 132,603</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.

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

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

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

There have been no changes to the valuation methodologies as of June 30, 2021 or 2020.



## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

#### Note 3. Investments (Continued)

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

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)	
Corporate bonds	\$ 1,476,288	\$ -	\$ -	\$ 1,476,288
Other bonds	245,326	-	-	245,326
Mutual funds	423,773	-	-	423,773
Exchange-traded funds	278,284	-	-	278,284
	<u>\$ 2,423,671</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,423,671</u>
Certificates of deposit (a)				<u>1,413,109</u>
				<u>\$ 3,836,780</u>

Description	Fair Value Measurements at June 30, 2020			Recorded at June 30, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Corporate bonds	\$ 94,785	\$ -	\$ -	\$ 94,785
Exchange-traded funds	258	-	-	258
	<u>\$ 95,043</u>	<u>\$ -</u>	<u>\$ -</u>	<u>95,043</u>
Certificates of deposit (a)				<u>3,400,040</u>
				<u>\$ 3,495,083</u>

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

#### 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, 2021. The line of credit expires on September 25, 2023, at which time all unpaid principal and interest is due. As of June 30, 2021 and 2020, there was no outstanding balance on the line of credit.

## Marines' Memorial Association and Affiliate

### Notes to Consolidated Financial Statements

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#### 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 at an interest rate of 4.85%, and requiring monthly payments beginning on October 25, 2018. Beginning October 25, 2028, a monthly principal and interest payment of \$50,860 will be due for 120 months, with interest being calculated using the one-month LIBOR plus a margin of 3.00%, until the maturity of the loan on September 25, 2038. The total balance outstanding on the term loans as of June 30, 2020, was \$6,553,429.

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 as of July 28, 2020, 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 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 \$57,000 and \$30,000 at June 30, 2021 and 2020, respectively.

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

Years ending June 30:	
2022	\$ -
2023	274,752
2024	311,104
2025	324,478
2026	337,527
Thereafter	5,403,869
	<u>\$ 6,651,730</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 applied for a loan and received total proceeds of \$1,764,900 on April 18, 2020. The Company 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 in the amount of \$1,725,035 on July 6, 2021. Accordingly, this amount is classified as long-term on the accompanying consolidated statements of financial position. The remaining balance not forgiven, in the amount of \$39,865, is classified as current on the accompanying consolidated statements of financial position at June 30, 2021, and was repaid subsequent to June 30, 2021.

## 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. Should the SBA subsequently determine that the Association does not qualify for full forgiveness, the amount not qualifying for forgiveness would be payable to the lender in monthly installments over a five-year term and at an interest rate of 1%. Accordingly, the second PPP loan is classified as long-term on the accompanying consolidated statements of financial position at June 30, 2021.

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

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

	2021	2020
Aid and assist program	\$ 140,844	\$ 106,069
Care package program	11,225	32,120
Capital improvements	1,179,145	879,841
Gold star events	57,837	-
Living memorial	15,797	3,850
Scholarship funds	449,270	522,544
	<u>\$ 1,854,118</u>	<u>\$ 1,544,424</u>

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

	2021	2020
Aid and assist program	\$ -	\$ 238
Capital improvements	79,703	180,239
Care package program	20,895	6,075
Gold star events	-	115,702
Living memorial	5,203	9,909
Education and historic	50	34,497
Theatre	640	2,268
Scholarship funds	113,450	107,911
	<u>\$ 219,941</u>	<u>\$ 456,839</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:	
2022	\$ 75,000
2023	50,000
2024	38,000
	<u>\$ 163,000</u>

Rental income was approximately \$24,000 and \$113,000 for the years ended June 30, 2021 and 2020, respectively.

#### Note 8. 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 \$90,000 and \$273,000 for the years ended June 30, 2021 and 2020, respectively.

#### Note 9. Commitments and Contingencies

**Construction contract commitments:** 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 \$1.4 million remaining as of June 30, 2021. The balance on the elevator renovation project is included as construction in process within the accompanying consolidated statements of financial position.

**COVID-19:** The spread of COVID-19, a novel strain of the coronavirus, is altering the behavior of businesses and people in a manner that may adversely impact local, regional and global economies. Further, financial markets in the United States and globally have recently experienced a significant decline attributed to coronavirus concerns. The extent to which the coronavirus impacts the Association's continued 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 continued 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, 2021  
(With Comparative Totals for 2020)

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2021	Total 2020
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 3,278,033	\$ 514,912	\$ -	\$ 3,792,945	\$ 4,214,833
Investments, current	1,748,400	-	-	1,748,400	1,985,223
Accounts receivable, net of allowance for doubtful accounts	26,111	-	-	26,111	46,561
Pledges receivable, current	179,545	-	-	179,545	171,900
Receivable from affiliates	40,798	-	(40,798)	-	-
Interest receivable	19,949	-	-	19,949	9,029
Inventories	160,735	-	-	160,735	188,132
Prepaid expenses	102,989	-	-	102,989	96,850
<b>Total current assets</b>	<b>5,556,560</b>	<b>514,912</b>	<b>(40,798)</b>	<b>6,030,674</b>	<b>7,154,958</b>
Pledges receivable, long-term, net of allowance for doubtful accounts and discount	264,631	-	-	264,631	442,430
Investments, long-term	2,088,380	-	-	2,088,380	1,509,860
Property and equipment:					
Land	120,000	-	-	120,000	120,000
Building and improvements	15,169,320	-	-	15,169,320	15,725,974
Furniture and equipment	9,481,242	-	-	9,481,242	9,600,683
Construction in progress	1,103,882	1,103,882	1,103,882	3,311,646	15,000
	24,770,562	-	-	24,770,562	25,446,657
Less accumulated depreciation	(19,210,593)	-	-	(19,210,593)	(18,913,013)
Construction in progress	5,559,969	-	-	5,559,969	6,533,644
	1,103,882	-	-	1,103,882	295,456
<b>Net property and equipment</b>	<b>6,663,851</b>	<b>-</b>	<b>-</b>	<b>6,663,851</b>	<b>6,829,100</b>
<b>Total assets</b>	<b>\$ 14,573,422</b>	<b>\$ 514,912</b>	<b>\$ (40,798)</b>	<b>\$ 15,047,536</b>	<b>\$ 15,493,918</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable	\$ 117,380	\$ -	\$ -	\$ 117,380	\$ 114,745
Accrued liabilities:					
Salaries and wages	329,687	-	-	329,687	403,056
Taxes other than income	22,833	-	-	22,833	4,791
Other	216,266	-	-	216,266	243,747
Payables to affiliates	-	40,798	(40,798)	-	-
Deposits	432,469	8,775	-	441,244	314,372
Deferred revenue	466,412	-	-	466,412	428,928
Current portion of long-term debt	-	-	-	-	960,641
Current portion of Paycheck Protection Program loans	39,865	-	-	39,865	-
<b>Total current liabilities</b>	<b>1,624,912</b>	<b>49,573</b>	<b>(40,798)</b>	<b>1,633,687</b>	<b>2,470,280</b>
Long-term debt, net of current portion and deferred financing costs	6,594,489	-	-	6,594,489	5,562,797
Paycheck Protection Program loans, net of current portion	3,725,035	-	-	3,725,035	1,764,900
<b>Total liabilities</b>	<b>11,944,436</b>	<b>49,573</b>	<b>(40,798)</b>	<b>11,953,211</b>	<b>9,797,977</b>
Commitments and contingencies					
Net assets:					
Without donor restrictions	1,123,226	116,981	-	1,240,207	4,151,517
With donor restrictions	1,505,760	348,358	-	1,854,118	1,544,424
<b>Total net assets</b>	<b>2,628,986</b>	<b>465,339</b>	<b>-</b>	<b>3,094,325</b>	<b>5,695,941</b>
<b>Total liabilities and net assets</b>	<b>\$ 14,573,422</b>	<b>\$ 514,912</b>	<b>\$ (40,798)</b>	<b>\$ 15,047,536</b>	<b>\$ 15,493,918</b>

## Marines' Memorial Association and Affiliate

### Consolidating Statement of Activities Year Ended June 30, 2021 (With Comparative Totals for 2020)

	Marines' Memorial Association	Marines' Memorial Foundation	Eliminating	Consolidated Total 2021	Total 2020
Revenues and support without donor restrictions:					
Rooms	\$ 606,559	\$ -	\$ -	\$ 606,559	\$ 5,268,483
Food and beverage	103,743	-	-	103,743	3,935,911
Theatre	-	-	-	-	405,264
Memorabilia	13,590	-	-	13,590	29,177
Space rentals	23,981	-	-	23,981	112,881
Investment income	65,681	331	-	66,012	132,603
Membership	709,239	-	-	709,239	844,201
Contributions	2,206,899	311,501	(150,000)	2,368,400	2,932,413
In-kind support	-	87,904	(87,904)	-	-
Miscellaneous	12,041	(8,442)	-	3,599	197,514
Net assets released from restrictions	219,301	640	-	219,941	456,839
<b>Total revenues and support without donor restrictions</b>	<b>3,961,034</b>	<b>391,934</b>	<b>(237,904)</b>	<b>4,115,064</b>	<b>14,315,286</b>
Revenues and support with donor restrictions:					
Contributions	397,588	132,047	-	529,635	1,302,687
Net assets released from restrictions	(219,301)	(640)	-	(219,941)	(456,839)
<b>Total revenues and support with donor restrictions</b>	<b>178,287</b>	<b>131,407</b>	<b>-</b>	<b>309,694</b>	<b>845,848</b>
<b>Total revenues and support</b>	<b>4,139,321</b>	<b>523,341</b>	<b>(237,904)</b>	<b>4,424,758</b>	<b>15,161,134</b>
Expenses:					
Program services	5,321,860	151,975	(150,000)	5,323,835	13,669,170
Supporting services:					
Management and general	1,221,584	87,645	(65,254)	1,243,975	1,879,342
Fundraising	458,564	22,650	(22,650)	458,564	607,267
<b>Total expenses</b>	<b>7,002,008</b>	<b>262,270</b>	<b>(237,904)</b>	<b>7,026,374</b>	<b>16,155,779</b>
<b>Change in net assets</b>	<b>(2,862,687)</b>	<b>261,071</b>	<b>-</b>	<b>(2,601,616)</b>	<b>(994,645)</b>
Cumulative effect of adoption of accounting standard:					
Accounting Standards Codification 606 adjustment	-	-	-	-	(423,710)
Net assets, beginning of year	5,491,673	204,268	-	5,695,941	7,114,296
Net assets, end of year	\$ 2,628,986	\$ 465,339	\$ -	\$ 3,094,325	\$ 5,695,941