

FINANCIAL STATEMENTS



MARINE CORPS UNIVERSITY FOUNDATION

**FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2019**

MARINE CORPS UNIVERSITY FOUNDATION

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Marine Corps University Foundation
Quantico, Virginia

We have audited the accompanying financial statements of the Marine Corps University Foundation (MCUF), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to 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 audit. We conducted our audit 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 MCUF as of December 31, 2020, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited MCFU's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



March 9, 2021

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 773,070	\$ 818,552
Accounts receivable	17,426	162,192
Pledges receivable	947,142	1,772,142
Inventory	44,215	41,844
Prepaid expenses	<u>13,413</u>	<u>10,085</u>
Total current assets	<u>1,795,266</u>	<u>2,804,815</u>
FIXED ASSETS		
Furniture and equipment, net of accumulated depreciation and amortization of \$91,756 and \$93,726 at 2020 and 2019, respectively	<u>4,630</u>	<u>7,717</u>
OTHER ASSETS		
Non-performing investments	11,080	11,080
Investments	9,165,619	8,888,642
Collections	28,743	28,743
Pledges receivable, long-term	<u>24,213</u>	<u>46,650</u>
Total other assets	<u>9,229,655</u>	<u>8,975,115</u>
TOTAL ASSETS	<u>\$ 11,029,551</u>	<u>\$ 11,787,647</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Loan payable	\$ 174,138	\$ -
Accounts payable and accrued liabilities	205,189	103,136
Deferred income	<u>55,000</u>	<u>35,000</u>
Total current liabilities	434,327	138,136
LONG-TERM LIABILITIES		
Loan payable, long-term	<u>49,968</u>	<u>-</u>
Total liabilities	<u>484,295</u>	<u>138,136</u>
NET ASSETS		
Without donor restrictions	1,674,426	1,576,385
With donor restrictions	<u>8,870,830</u>	<u>10,073,126</u>
Total net assets	<u>10,545,256</u>	<u>11,649,511</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,029,551</u>	<u>\$ 11,787,647</u>

See accompanying notes to financial statements.

MARINE CORPS UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions and gifts	\$ <u>333,378</u>	\$ <u>241,544</u>	\$ <u>574,922</u>	\$ <u>781,759</u>
Events:				
Member event benefit redemption	9,100	-	9,100	26,850
Underwriting and contributions	29,635	-	29,635	238,639
Event, net:				
Ticket sales	13,916	-	13,916	116,770
Event expenses	<u>(13,634)</u>	<u>-</u>	<u>(13,634)</u>	<u>(102,747)</u>
Net event revenue	39,017	-	39,017	279,512
Membership contribution	43,400	-	43,400	103,700
Interest and dividends, net	61,211	116,158	177,369	309,672
Other revenue	12,339	-	12,339	11,381
Net assets released from donor restrictions	<u>1,732,939</u>	<u>(1,732,939)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,222,284</u>	<u>(1,375,237)</u>	<u>847,047</u>	<u>1,486,024</u>
EXPENSES				
Program Services	<u>1,880,989</u>	<u>-</u>	<u>1,880,989</u>	<u>1,657,635</u>
Supporting Services:				
Management and General	105,270	-	105,270	107,489
Fundraising	<u>229,119</u>	<u>-</u>	<u>229,119</u>	<u>273,050</u>
Total supporting services	<u>334,389</u>	<u>-</u>	<u>334,389</u>	<u>380,539</u>
Total expenses	<u>2,215,378</u>	<u>-</u>	<u>2,215,378</u>	<u>2,038,174</u>
Change in net assets from operations	<u>6,906</u>	<u>(1,375,237)</u>	<u>(1,368,331)</u>	<u>(552,150)</u>
OTHER ITEMS				
Realized loss on investments	(167,986)	(318,777)	(486,763)	(213,337)
Unrealized gain on investments	<u>259,121</u>	<u>491,718</u>	<u>750,839</u>	<u>1,422,785</u>
Total other items	<u>91,135</u>	<u>172,941</u>	<u>264,076</u>	<u>1,209,448</u>
Change in net assets	98,041	(1,202,296)	(1,104,255)	657,298
Net assets at beginning of year	<u>1,576,385</u>	<u>10,073,126</u>	<u>11,649,511</u>	<u>10,992,213</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,674,426</u>	<u>\$ 8,870,830</u>	<u>\$ 10,545,256</u>	<u>\$ 11,649,511</u>

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020				2019	
	Program Services	Supporting Services		Total Supporting Services	Total Expenses	Total Expenses
		Management and General	Fundraising			
Marine Corps University support	\$ 1,399,713	\$ -	\$ -	\$ -	\$ 1,399,713	\$ 1,187,242
Other salaries	119,378	29,376	129,519	158,895	278,273	279,687
Compensation of officers	182,099	25,575	48,075	73,650	255,749	258,393
Professional fees	74,139	21,183	10,704	31,887	106,026	105,543
Occupancy	46,228	13,208	6,604	19,812	66,040	67,081
Other expenses	22,081	6,134	21,561	27,695	49,776	116,768
Payroll taxes	22,320	4,068	13,148	17,216	39,536	39,702
Printing and publications	4,863	3,648	6,247	9,895	14,758	15,654
Pension plan contributions	8,008	1,460	4,717	6,177	14,185	13,727
Depreciation	2,160	618	309	927	3,087	1,774
Food and beverage	-	-	1,869	1,869	1,869	55,350
Total expenses	1,880,989	105,270	242,753	348,023	2,229,012	2,140,921
Less: Event expenses included with revenue	-	-	(13,634)	(13,634)	(13,634)	(102,747)
NET EXPENSES	\$ 1,880,989	\$ 105,270	\$ 229,119	\$ 334,389	\$ 2,215,378	\$ 2,038,174

See accompanying notes to financial statements.

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,104,255)	\$ 657,298
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	3,087	1,774
Change in discount on noncurrent pledges	(2,563)	(49,042)
Realized loss on sale of investments	486,763	213,337
Unrealized gain on investments	(750,839)	(1,422,785)
Contributions to be maintained in perpetuity	(85,799)	(59,530)
Receipt of contributed securities	1,149	679,001
Proceeds from sale of contributed securities	(1,149)	(679,001)
Decrease (increase) in:		
Accounts receivable	144,766	(50,918)
Pledges receivable	850,000	608,137
Inventory	(2,371)	18,201
Prepaid expenses	(3,328)	10,204
Increase (decrease) in:		
Accounts payable and accrued liabilities	102,053	(112,467)
Deferred income	<u>20,000</u>	<u>35,000</u>
Net cash used by operating activities	<u>(342,486)</u>	<u>(150,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of computer equipment	-	(9,260)
Purchase of investments	(3,632,551)	(2,494,618)
Proceeds from sales of investments	<u>3,619,650</u>	<u>2,199,581</u>
Net cash used by investing activities	<u>(12,901)</u>	<u>(304,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	224,106	-
Contributions to be maintained in perpetuity	<u>85,799</u>	<u>59,530</u>
Net cash provided by financing activities	<u>309,905</u>	<u>59,530</u>
Net decrease in cash and cash equivalents	(45,482)	(395,558)
Cash and cash equivalents at beginning of year	<u>818,552</u>	<u>1,214,110</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 773,070</u>	<u>\$ 818,552</u>

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Marine Corps University Foundation (MCUF) was incorporated in the Commonwealth of Virginia on June 25, 1980, as a not-for-profit tax exempt organization, to be operated exclusively for charitable and educational purposes. MCUF's primary goal is to enhance the advanced professional education and leadership development of active duty Marines stationed at the Marine Corps University in Quantico, Virginia, as well as at separate commands and Operating Forces across the globe. Since its inception, MCUF has supported a wide range of programs for which Government funding was not available. The primary sources of income are contributions and gifts received from members.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than MCUF mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MCUF's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Cash and cash equivalents -

MCUF considers cash in banks to be cash and cash equivalents, excluding money market funds held by investment managers in the amount of \$275,686 at December 31, 2020. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, MCUF maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Accounts receivable (continued) -

Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Pledges receivable -

Pledges receivable that are expected to be collected in future years are recorded at their fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. At December 31, 2020, the discount rate in effect was 3.25%, and the total discount amounted to \$787. Pledges classified as current in the accompanying Statement of Financial Position are due in less than one year. Long-term pledges are due in one to three years. Amortization of the discounts is included in contributions and gifts revenue. Conditional promises to give are not included as support until the conditions are substantially met. All pledges receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in other items in the Statement of Activities and Change in Net Assets. Interest and dividends are shown net of investment expenses paid to external investment advisors in the Statement of Activities and Change in Net Assets. Investments acquired by gift are recorded at their fair value at the date of the gift. MCUF's policy is to liquidate all gifts of investments as soon as possible after the gift.

Fixed assets -

Fixed assets are stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. All asset purchases in excess of \$2,500 are capitalized. Leasehold improvements are amortized over five years. The costs of maintenance and repairs are recorded as expenses are incurred.

Income taxes -

MCUF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, contributions to MCUF qualify for a charitable deduction under Section 170(b)(1)(A). Accordingly, no provision for income taxes has been made in the accompanying financial statements. MCUF is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2020, MCUF has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of art prints, books and medallions purchased for resale and program support to members of MCUF and personnel of the U.S. Marine Corps.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Inventory (continued) -

MCUF records inventory in accordance with FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory.

Collections -

Collections of heirlooms and works of art acquired by MCUF are capitalized at cost, if purchased, and at appraised or fair value if received by donation. Collections are considered net assets without donor restrictions.

Event and membership revenue -

Event revenue received for galas, luncheons and golf outings include ticket sales, underwriting and contributions received during events and member event benefit redemption revenue. All amounts are recorded as revenue when the performance obligations are met, which is when the related event has occurred. Event revenue received in advance is recorded as deferred income on the Statement of Financial Position. As of December 31, 2020, deferred income related to event revenue totaled \$20,000.

Membership dues in the amount of \$52,500 for the year ended December 31, 2020 includes membership contribution in the amount of \$43,400 to MCUF as well as event revenue in the amount of \$9,100 which is based on benefits received by the member attending the event. This amount is classified as "member event benefit redemption" revenue. These amounts were bifurcated and reported within the respective classification in the Statement of Activities and Change in Net Assets. Amounts classified as a membership contribution are recorded upon receipt and the amounts associated with event income are recorded when the performance obligation has been met as noted above. Transaction price for each is based on the cost and/or sales price.

The performance obligations noted above relate to contracts with a duration of less than one year; therefore, MCUF has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the service is provided.

Contributions and gifts -

The majority of MCUF's activities are supported by contributions and gifts from foundations, trusts, individuals and other private entities. These awards are for various activities performed by MCUF. Contributions and gifts are recognized in the appropriate category of net assets in the period received. MCUF performs an analysis of the individual contributions and gifts to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For contributions and gifts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions and gifts (continued) -

Contributions and gifts qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Contributions or gifts qualifying as conditional contributions contain a right of return from obligation provision that limits MCUF on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. Most grant awards for direct and indirect program costs are nonreciprocal and classified as conditional and are therefore recognized as contributions when the revenue becomes unconditional. MCUF recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred).

Funds received in advance of the incurrence of qualifying expenditures are recorded as deferred income. For contributions and grants treated as contributions, MCUF had approximately \$175,000 in unrecognized conditional awards as of December 31, 2020. Of this, \$35,000 was included in deferred income on the Statement of Financial Position as of December 31, 2020.

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses directly attributed to a specific functional area of MCUF are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Risks and uncertainties -

MCUF invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurement -

In accordance with FASB ASC 820, Fair Value Measurement, MCUF has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market MCUF has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For disclosure of inputs and valuation techniques, see Note 4.

New accounting pronouncement (not yet adopted) -

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

MCUF plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact MCUF's operations, including cancellation of several 2020 events. The overall potential impact is unknown at this time.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

2. PLEDGES RECEIVABLE

As of December 31, 2020, contributors to MCUF have made written promises to give of which \$972,142, remained due and outstanding.

Pledges due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 3.25%.

Less than one year	\$ 947,142
One to three years	<u>25,000</u>
Total	972,142
Less: Allowance to discount balance to present value	<u>(787)</u>
PLEDGES RECEIVABLE	<u>\$ 971,355</u>

3. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2020:

Computer and other equipment	\$ 25,612
Leasehold improvements	9,258
Furniture and fixtures	<u>61,516</u>
Total cost	96,386
Less: Accumulated depreciation and amortization	<u>(91,756)</u>
FURNITURE AND EQUIPMENT, NET	<u>\$ 4,630</u>

Depreciation and amortization expense for the year ended December 31, 2020 was \$3,087.

4. INVESTMENTS

The table below summarizes the investments measured at fair value on a recurring basis, by level within the fair value hierarchy. MCUF's investments as of December 31, 2020 were as follows:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds -				
Money market mutual funds	\$ 275,686	\$ -	\$ -	\$ 275,686
Fixed income exchange traded funds	3,196,247	-	-	3,196,247
Equity exchange traded funds	5,693,686	-	-	5,693,686
Alternative investments	<u>-</u>	<u>-</u>	<u>11,080</u>	<u>11,080</u>
TOTAL	<u>\$ 9,165,619</u>	<u>\$ -</u>	<u>\$ 11,080</u>	<u>\$ 9,176,699</u>

There was no change in value of the Level 3 investments from the prior year.

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

4. INVESTMENTS (Continued)

Included in investment income are the following:

Interest and dividends, net of fees in the amount of \$50,084	\$ 177,369
Realized loss	(486,763)
Unrealized gain	<u>750,839</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 441,445</u>

MCUF sells a portion of its investment portfolio each year to fund general operating expenses and to re-balance the outstanding portfolio. The alternative investments are comprised of partnerships and various real estate holdings.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - The money market fund is an open-end mutual fund that is registered with the Securities and Exchange Commission and is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by MCUF's are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by MCUF's are deemed to be actively traded.
- *Partnerships and real estate holdings* - These instruments do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships.

5. LOAN PAYABLE

On May 1, 2020, MCUF received loan proceeds in the amount of \$224,106 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. MCUF used the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

MCUF applied for forgiveness which was granted in full, including accrued interest, subsequent to December 31, 2020. The MCUF will record revenue from debt extinguishments during the year ending December 31, 2021, which is the period when forgiveness was granted.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

6. BOARD DESIGNATED NET ASSETS

As of December 31, 2020, net assets without donor restrictions have been designated by the Board of Trustees for the following purposes:

Quasi-Endowment to Fund General Operations	<u>\$ 368,262</u>
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7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31, 2020:

Endowments invested in perpetuity	\$ 5,328,821
Subject to expenditure for specified purpose:	
Donald Bren Distinguished Professor Fund	1,098,596
Harvard Scholarship Fund	244,974
Tim Day Fund	210,000
MCU Case Study	97,644
MCU Library Archives	89,852
Emerald Express	49,851
Cyber Chair	49,200
MCU Journal	16,574
Amgrunts	12,720
Center for Applied Creativity	7,000
Sexton/Alcove Fund	6,225
Swag Fund	4,611
Miller WWI Project	4,022
McCleod Award for 3rd Battalion, 6th Marines	1,726
BGen Draude Award	1,002
Center Tactical Ed	850
Gung Ho Award	681
Accumulated endowment earnings not yet authorized for spending	<u>1,597,268</u>
Subject to expenditure for specified purpose	8,821,617
Time restricted	<u>49,213</u>

NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 8,870,830</u>
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The following net assets with donor restrictions were released by incurring expenses which satisfied the restricted purposes specified by the donors:

Subject to expenditure for specified purpose:	
Donald Bren Distinguished Professor Fund	\$ 1,024,626
General Gray Personal Library	90,142
Miller WWI Project	5,978
Computer Support	740
BGen Draude Award	626
Swag Fund	8
Time release	25,000
Endowment earnings authorized for programmatic spending	233,087
Endowment corpus authorized for release by donor	<u>352,732</u>

NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 1,732,939</u>
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MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

8. LIQUIDITY

Financial assets available for use within one year of the Statement of Financial Position comprise the following:

Cash and cash equivalents	\$ 773,070
Accounts receivable	17,426
Pledges receivable	947,142
Investments	9,165,619
Less: Board designated net assets	(368,262)
Less: Donor restrictions for specific purposes	(8,821,617)
Less: Time restrictions greater than one year	<u>(25,000)</u>
FINANCIAL ASSETS AVAILABLE FOR USE	<u>\$ 1,688,378</u>

MCUF has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2020, cash is available to meet the upcoming year's needs for general expenditures.

9. ENDOWMENT

MCUF's endowment consists of donor-restricted endowment funds and funds designated by the governing Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, MCUF considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

MCUF has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, MCUF considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

9. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of December 31, 2020:

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Board designated endowment funds	\$ 264,800	\$ -	\$ 264,800
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	5,328,821	5,328,821
Accumulated investment earnings	<u>103,462</u>	<u>1,597,268</u>	<u>1,700,730</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 368,262</u>	<u>\$ 6,926,089</u>	<u>\$ 7,294,351</u>

Changes in endowment net assets for the year ended December 31, 2020:

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Endowment net assets, beginning of year	\$ -	\$ 7,137,380	\$ 7,137,380
Redesignation of endowment funds*	352,732	(352,732)	-
Investment income, net	15,530	288,729	304,259
Contributions	-	85,799	85,799
Amounts appropriated for expenditure	<u>-</u>	<u>(233,087)</u>	<u>(233,087)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 368,262</u>	<u>\$ 6,926,089</u>	<u>\$ 7,294,351</u>

* On January 1, 2020 the donor of the Lord Lecture Series endowment authorized the release of \$264,800 of corpus and \$87,932 of accumulated earnings. MCUF Board of Trustees simultaneously redesignated the funds to a Board designated quasi-endowment fund. The earnings related to the new fund are designated to finance general operations.

Net assets restricted for endowments consisted of the following funds at December 31, 2020:

Adamson Chair of Insurgency and Terrorism	\$ 1,500,000
Marshall Chair for Strategic Studies	1,402,174
Horner Chair of Military Theory	1,259,959
Erskine Lecture Series	350,000
Brigadier General H.L. Oppenheimer Chair of Warfighting Strategy	269,298
First Special Basic Class 1950 Endowment Fund	200,000
Pohl Award	68,500
Mutter/C2 Symposium	56,500
Brody Memorial Fund for Operations	50,000
Rose Award for Teaching Excellence	40,150
Taylor Award for Outstanding Infantry Leadership	34,240
Yale Class of '51 Media Symposium	30,000
Singleton Lecture Series	22,000
Colonel F. Brooke Nihart Award	16,000
Kriendler Award for Highest Leadership Averages at OCS	15,000
Streusand-Cooper Award	<u>15,000</u>
Endowment net assets with donor restrictions	5,328,821
Endowment net assets without donor restrictions	<u>264,800</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 5,593,621</u>

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

9. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. MCUF has no such deficiencies as of December 31, 2020.

Return Objectives and Risk Parameters -

MCUF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that MCUF must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce rates of return of 7% to 8%, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives -

To satisfy its long-term, rate-of-return objectives, MCUF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

MCUF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

MCUF has a policy of appropriating for distribution, generally, earnings equal to 4% of Endowment Funds.

10. LEASE COMMITMENT

In December 2015, MCUF and the Marine Corps Association & Foundation entered into a new office lease for the period of January 1, 2016 through December 31, 2019. In 2019, the lease was extended through December 31, 2020. The terms of this lease are for \$60,000 rent per year, due in equal monthly installments. Total rent expense for the year ended December 31, 2020 was \$60,000 and is included in Occupancy on the accompanying Statement of Functional Expenses. The lease has been extended through December 31, 2021 with the same payment terms.

11. EMPLOYEE BENEFIT PLAN

MCUF provides a tax-sheltered annuity 401(k) retirement plan to all full-time employees who meet age and length-of-service requirements. MCUF contributes as a match 17.5% of the amount of employee deferral contributions for each eligible employee. Total pension expense in 2020 was \$13,685.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

12. SUBSEQUENT EVENTS

In preparing these financial statements, MCUF has evaluated events and transactions for potential recognition or disclosure through March 9, 2021, the date the financial statements were issued.

Subsequent to year-end, MCUF received full forgiveness of the SBA loan payable. See Note 5 for further details.