

## **FINANCIAL STATEMENTS**



# **MARINE CORPS UNIVERSITY FOUNDATION**

**FOR THE YEAR ENDED DECEMBER 31, 2021  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2020**

**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

#### Opinion

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, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCUF as of December 31, 2021, and the changes 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.

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

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The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCUF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCUF's ability to continue as a going concern for a reasonable period of time.

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

#### **Report on Summarized Comparative Information**

We have previously audited MCUF's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



March 4, 2022

**MARINE CORPS UNIVERSITY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

<b>ASSETS</b>		<u>2021</u>	<u>2020</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	436,601	\$ 773,070
Accounts receivable		7,121	17,426
Pledges receivable		25,000	947,142
Inventory		42,435	44,215
Prepaid expenses		<u>27,721</u>	<u>13,413</u>
Total current assets		<u>538,878</u>	<u>1,795,266</u>
<b>FIXED ASSETS</b>			
Furniture and equipment, net of accumulated depreciation and amortization of \$93,389 and \$91,756 at 2021 and 2020, respectively		<u>4,248</u>	<u>4,630</u>
<b>OTHER ASSETS</b>			
Non-performing investments		2,641	11,080
Investments		10,247,562	9,165,619
Collections		28,743	28,743
Pledges receivable, long-term		<u>-</u>	<u>24,213</u>
Total other assets		<u>10,278,946</u>	<u>9,229,655</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 10,822,072</u></b>	<b><u>\$ 11,029,551</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Loan payable	\$	-	\$ 224,106
Accounts payable and accrued liabilities		120,218	205,189
Deferred income		<u>100,900</u>	<u>55,000</u>
Total liabilities		<u>221,118</u>	<u>484,295</u>
<b>NET ASSETS</b>			
Without donor restrictions		2,144,447	1,674,426
With donor restrictions		<u>8,456,507</u>	<u>8,870,830</u>
Total net assets		<u>10,600,954</u>	<u>10,545,256</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 10,822,072</u></b>	<b><u>\$ 11,029,551</u></b>

See accompanying notes to financial statements.

**MARINE CORPS UNIVERSITY FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT AND REVENUE</b>				
Contributions and gifts	\$ 503,768	\$ 259,565	\$ 763,333	\$ 574,922
Events:				
Member event benefit redemption	500	-	500	9,100
Underwriting and contributions	15,556	-	15,556	29,635
Event, net:				
Ticket sales	14,773	-	14,773	13,916
Event expenses	<u>(13,843)</u>	<u>-</u>	<u>(13,843)</u>	<u>(13,634)</u>
Net event revenue	16,986	-	16,986	39,017
Membership contribution	39,500	-	39,500	43,400
Interest and dividends, net	15,137	36,485	51,622	177,369
Other revenue	12,690	-	12,690	12,339
Net assets released from donor restrictions	<u>1,022,302</u>	<u>(1,022,302)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,610,383</u>	<u>(726,252)</u>	<u>884,131</u>	<u>847,047</u>
<b>EXPENSES</b>				
Program Services	<u>1,606,753</u>	<u>-</u>	<u>1,606,753</u>	<u>1,880,989</u>
Supporting Services:				
Management and General	112,101	-	112,101	105,270
Fundraising	<u>264,508</u>	<u>-</u>	<u>264,508</u>	<u>229,119</u>
Total supporting services	<u>376,609</u>	<u>-</u>	<u>376,609</u>	<u>334,389</u>
Total expenses	<u>1,983,362</u>	<u>-</u>	<u>1,983,362</u>	<u>2,215,378</u>
Change in net assets from operations before other items	<u>(372,979)</u>	<u>(726,252)</u>	<u>(1,099,231)</u>	<u>(1,368,331)</u>
<b>OTHER ITEMS</b>				
Realized gain (loss) on investments	267,146	643,917	911,063	(486,763)
Unrealized gain on investments	107,868	260,001	367,869	750,839
Expiration of funds	-	(591,989)	(591,989)	-
Extinguishment of debt	<u>467,986</u>	<u>-</u>	<u>467,986</u>	<u>-</u>
Total other items	<u>843,000</u>	<u>311,929</u>	<u>1,154,929</u>	<u>264,076</u>
Change in net assets	470,021	(414,323)	55,698	(1,104,255)
Net assets at beginning of year	<u>1,674,426</u>	<u>8,870,830</u>	<u>10,545,256</u>	<u>11,649,511</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,144,447</u></b>	<b><u>\$ 8,456,507</u></b>	<b><u>\$ 10,600,954</u></b>	<b><u>\$ 10,545,256</u></b>

See accompanying notes to financial statements.

**MARINE CORPS UNIVERSITY FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021				2020	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising			
Marine Corps University support	\$ 1,055,425	\$ -	\$ -	\$ -	\$ 1,055,425	\$ 1,399,713
Other salaries	135,557	31,607	159,127	190,734	326,291	278,273
Compensation of officers	182,099	25,575	48,075	73,650	255,749	255,749
Professional fees	80,138	22,897	11,448	34,345	114,483	105,913
Occupancy	46,965	13,418	6,709	20,127	67,092	66,040
Other expenses	65,500	7,726	12,902	20,628	86,128	40,723
Payroll taxes	25,998	4,680	16,958	21,638	47,636	39,536
Printing and publications	5,714	4,286	4,286	8,572	14,286	12,159
Pension plan contributions	7,196	1,295	4,694	5,989	13,185	14,185
Depreciation	2,161	617	309	926	3,087	3,087
Events	-	-	13,843	13,843	13,843	13,634
	-	-	-	-	-	-
Total expenses	1,606,753	112,101	278,351	390,452	1,997,205	2,229,012
Less: Event expenses included with revenue	-	-	(13,843)	(13,843)	(13,843)	(13,634)
<b>NET EXPENSES</b>	<b>\$ 1,606,753</b>	<b>\$ 112,101</b>	<b>\$ 264,508</b>	<b>\$ 376,609</b>	<b>\$ 1,983,362</b>	<b>\$ 2,215,378</b>

See accompanying notes to financial statements.

**MARINE CORPS UNIVERSITY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 55,698	\$ (1,104,255)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	3,087	3,087
Change in discount on noncurrent pledges	(787)	(2,563)
Realized (gain) loss on sale of investments	(911,063)	486,763
Unrealized gain on investments	(367,869)	(750,839)
Pledge write off	591,989	-
Contributions to be maintained in perpetuity	(3,200)	(85,799)
Receipt of contributed securities	1,554	1,149
Proceeds from sale of contributed securities	(1,554)	(1,149)
Extinguishment of debt	(467,986)	-
Decrease (increase) in:		
Accounts receivable	10,305	144,766
Pledges receivable	355,153	850,000
Inventory	1,780	(2,371)
Prepaid expenses	(14,308)	(3,328)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(84,971)	102,053
Deferred income	<u>45,900</u>	<u>20,000</u>
Net cash used by operating activities	<u>(786,272)</u>	<u>(342,486)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of computer equipment	(2,705)	-
Purchase of investments	(5,653,745)	(3,632,551)
Proceeds from sales of investments	<u>5,859,173</u>	<u>3,619,650</u>
Net cash provided (used) by investing activities	<u>202,723</u>	<u>(12,901)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	243,880	224,106
Contributions to be maintained in perpetuity	<u>3,200</u>	<u>85,799</u>
Net cash provided by financing activities	<u>247,080</u>	<u>309,905</u>
Net decrease in cash and cash equivalents	(336,469)	(45,482)
Cash and cash equivalents at beginning of year	<u>773,070</u>	<u>818,552</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 436,601</u></b>	<b><u>\$ 773,070</u></b>
<b>SCHEDULE OF NONCASH TRANSACTIONS</b>		
Extinguishment of Debt	<b><u>\$ 467,986</u></b>	<b><u>\$ -</u></b>



# MARINE CORPS UNIVERSITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

### 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, 2020, 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 \$3,306 at December 31, 2021.

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

Cash and cash equivalents (continued) -

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. 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. Pledges classified as current in the accompanying Statement of Financial Position are due in less than one year. There were no long-term pledges as of December 31, 2021.

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.

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

Uncertain tax positions -

For the year ended December 31, 2021, 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. 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, 2021, deferred income related to event revenue totaled \$20,000.

Membership dues in the amount of \$40,000 for the year ended December 31, 2021 includes membership contribution in the amount of \$39,500 to MCUF as well as event revenue in the amount of \$500 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.

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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. 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 \$150,900 in unrecognized conditional awards as of December 31, 2021. Of this, \$80,900 was included in deferred income on the Statement of Financial Position as of December 31, 2021.

Contributed services and materials -

Contributed services and materials consisted of donated assets and professional services. The value of the contributed services and materials are recorded at fair market value as of the date of receipt or the date the services were provided.

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.

# MARINE CORPS UNIVERSITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

#### 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.

#### 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 3.

#### New accounting pronouncements (not yet adopted) -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure.

# MARINE CORPS UNIVERSITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

New accounting pronouncements (not yet adopted) (continued) -

The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of 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 ASUs at the required implementation dates and management is currently in the process of evaluating the adoption method and the impact of the new standards 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 and 2021 events. The overall potential impact is unknown at this time.

### 2. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2021:

Computer and other equipment	\$	27,163
Leasehold improvements		9,258
Furniture and fixtures		<u>61,216</u>
Total cost		97,637
Less: Accumulated depreciation and amortization		<u>(93,389)</u>
<b>FURNITURE AND EQUIPMENT, NET</b>	<b>\$</b>	<b><u>4,248</u></b>

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**2. FIXED ASSETS (Continued)**

Depreciation and amortization expense for the year ended December 31, 2021 was \$3,087.

**3. 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, 2021 were as follows:

<b>Asset Class:</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds -				
Money market mutual funds	\$ 3,306	\$ -	\$ -	\$ 3,306
Fixed income exchange traded funds	3,020,570	-	-	3,020,570
Equity exchange traded funds	7,223,686	-	-	7,223,686
Alternative investments	<u>-</u>	<u>-</u>	<u>2,641</u>	<u>2,641</u>
<b>TOTAL</b>	<b><u>\$10,247,562</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,641</u></b>	<b><u>\$ 10,250,203</u></b>

Included in investment income are the following:

Interest and dividends, net of fees in the amount of \$56,612	\$ 51,622
Realized gain	911,063
Unrealized gain	<u>367,869</u>
<b>TOTAL INVESTMENT INCOME, NET</b>	<b><u>\$ 1,330,554</u></b>

The following table provides a summary of changes in fair value of MCUF's Level 3 financial assets for the year ended December 31, 2021:

Balance at December 31, 2020	\$ 11,080
Distributions	<u>(8,439)</u>
<b>BALANCE AT DECEMBER 31, 2021</b>	<b><u>\$ 2,641</u></b>

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, 2021. 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.

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**3. INVESTMENTS (Continued)**

- *Exchange traded funds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Alternative investments: (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.

**4. LOAN PAYABLE**

On May 1, 2020, MCUF received loan proceeds in the amount of \$224,106 under the Paycheck Protection Program. The promissory note called 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 if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met.

During the year, MCUF applied for and received forgiveness of \$224,106 in principal from the Small Business Administration on February 19, 2021. The amount of loan forgiveness is recorded as income from extinguishment of debt in the accompanying Statement of Activities and Change in Net Assets.

On March 18, 2021, MCUF entered into a second five year promissory note agreement in the amount of \$243,880 with a 1% fixed interest rate under the Paycheck Protection Program (Second Draw PPP Loan). The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note, unless otherwise forgiven. 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.

During the year, MCUF applied for and received forgiveness of \$243,880 in principal from the Small Business Administration on September 13, 2021 related to the second promissory note. The amount of loan forgiveness is recorded as income from extinguishment of debt in the accompanying Statement of Activities and Change in Net Assets.

**5. BOARD DESIGNATED NET ASSETS**

As of December 31, 2021, net assets without donor restrictions have been designated by the Board of Trustees for the following purposes:

<b>Quasi-Endowment to Fund General Operations</b>	<b><u>\$ 418,994</u></b>
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On January 1, 2020 the donor of the Lord Lecture Series endowment authorized the release of \$352,732 of endowments. 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.



**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**6. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at December 31, 2021:

Endowments invested in perpetuity	\$ 5,332,021
Subject to expenditure for specified purpose:	
Tim Day Fund	280,000
Harvard Scholarship Fund	244,974
MCU Case Study	97,644
MCU Library Archives	89,852
Emerald Express	49,851
MCU Journal	16,574
Amgrunts	12,720
Center for Applied Creativity	7,000
Sexton/Alcove Fund	6,225
Swag Fund	5,111
Miller WWI Project	3,953
McCleod Award for 3rd Battalion, 6th Marines	1,725
BGen Draude Award	1,701
Center Tactical Ed	850
Gung Ho Award	682
Accumulated endowment earnings not yet authorized for spending	<u>2,280,624</u>
Subject to expenditure for specified purpose	8,431,507
Time restricted	<u>25,000</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 8,456,507</u></b>

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	\$ 1,098,639
Harvard Scholarship Fund	172,841
Cyber Chair	49,200
General Gray Personal Library	6,000
BGen Draude Award	300
Miller WWI Project	69
Time release	25,000
Endowment earnings authorized for programmatic spending	<u>262,242</u>
<b>NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 1,614,291</u></b>

**7. LIQUIDITY**

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

Cash and cash equivalents	\$ 436,601
Accounts receivable	7,121
Pledges receivable	25,000
Investments	10,247,562
Less: Board designated net assets	(418,994)
Less: Donor restrictions for specific purposes	<u>(8,431,507)</u>
<b>FINANCIAL ASSETS AVAILABLE FOR USE</b>	<b><u>\$ 1,865,783</u></b>

# MARINE CORPS UNIVERSITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

### 7. LIQUIDITY (Continued)

MCUF has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2021, cash is available to meet the upcoming year's needs for general expenditures.

### 8. ENDOWMENTS

MCUF's endowments 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.

Endowment net asset composition by type of fund as of December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 352,732	\$ -	\$ 352,732
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	5,332,021	5,332,021
Accumulated investment earnings	<u>66,262</u>	<u>2,280,624</u>	<u>2,346,886</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 418,994</u></b>	<b><u>\$ 7,612,645</u></b>	<b><u>\$ 8,031,639</u></b>

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**8. ENDOWMENTS (Continued)**

Changes in endowment net assets for the year ended December 31, 2021:

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Endowment net assets, beginning of year	\$ 368,262	\$ 6,926,089	\$ 7,294,351
Investment income, net	50,732	940,361	991,093
Contributions to endowment	-	3,200	3,200
Contributions to accumulated earnings	-	5,237	5,237
Amounts appropriated for expenditure	<u>-</u>	<u>(262,242)</u>	<u>(262,242)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 418,994</u></b>	<b><u>\$ 7,612,645</u></b>	<b><u>\$ 8,031,639</u></b>

Net assets restricted for endowments consisted of the following funds at December 31, 2021:

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	59,500
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>15,200</u>
Endowment net assets with donor restrictions	5,332,021
Endowment net assets without donor restrictions	<u>352,732</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 5,684,753</u></b>

In 2009, the restrictions of the following endowment funds were released by the Donors and are now in net assets without restrictions in response to the significant investment losses regarding then Stanford Investments matter.

- \$500,000 from the Guy P. Wyser-Pratte Chair of French Studies
- \$330,000 from the Thomas Amphibious Research Fund

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, 2021.

**MARINE CORPS UNIVERSITY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**8. ENDOWMENTS (Continued)**

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.

**9. 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. The lease has been extended through December 31, 2022. 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, 2021 was \$60,000 and is included in Occupancy on the accompanying Statement of Functional Expenses.

**10. 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 2021 was \$12,685.

**11. SUBSEQUENT EVENTS**

In preparing these financial statements, MCUF has evaluated events and transactions for potential recognition or disclosure through March 4, 2022, the date the financial statements were issued.