

FINANCIAL STATEMENTS



MARINE CORPS UNIVERSITY FOUNDATION

**FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2021**

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, 2022, 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, 2022, 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.

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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 4, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



March 16, 2023

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

ASSETS		<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	270,115	\$ 436,601
Contributions receivable		42,709	7,121
Pledges receivable		-	25,000
Inventory		33,655	42,435
Prepaid expenses		<u>24,480</u>	<u>27,721</u>
Total current assets		<u>370,959</u>	<u>538,878</u>
FIXED ASSETS			
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$82,728		<u>9,680</u>	<u>4,248</u>
OTHER ASSETS			
Non-performing investments		2,641	2,641
Investments		8,840,566	10,247,562
Collections		<u>28,743</u>	<u>28,743</u>
Total other assets		<u>8,871,950</u>	<u>10,278,946</u>
TOTAL ASSETS		<u>\$ 9,252,589</u>	<u>\$ 10,822,072</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	95,982	\$ 120,218
Deferred income		<u>44,959</u>	<u>100,900</u>
Total liabilities		<u>140,941</u>	<u>221,118</u>
NET ASSETS			
Without donor restrictions		1,631,908	2,144,447
With donor restrictions		<u>7,479,740</u>	<u>8,456,507</u>
Total net assets		<u>9,111,648</u>	<u>10,600,954</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 9,252,589</u>	<u>\$ 10,822,072</u>

MARINE CORPS UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions and gifts	\$ <u>532,244</u>	\$ <u>303,481</u>	\$ <u>835,725</u>	\$ <u>763,333</u>
Events:				
Member event benefit redemption	3,100	-	3,100	500
Underwriting and contributions	118,640	-	118,640	15,556
Event, net:				
Ticket sales	148,973	-	148,973	14,773
Event expenses	<u>(113,537)</u>	<u>-</u>	<u>(113,537)</u>	<u>(13,843)</u>
Net event revenue	<u>157,176</u>	<u>-</u>	<u>157,176</u>	<u>16,986</u>
Membership contribution	40,800	-	40,800	39,500
Interest and dividends, net	27,427	69,516	96,943	51,622
Other revenue	17,788	-	17,788	12,690
Net assets released from donor restrictions	<u>487,307</u>	<u>(487,307)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,262,742</u>	<u>(114,310)</u>	<u>1,148,432</u>	<u>884,131</u>
EXPENSES				
Program Services	<u>966,578</u>	<u>-</u>	<u>966,578</u>	<u>1,606,753</u>
Supporting Services:				
Management and General	129,836	-	129,836	112,101
Fundraising	<u>338,582</u>	<u>-</u>	<u>338,582</u>	<u>264,508</u>
Total supporting services	<u>468,418</u>	<u>-</u>	<u>468,418</u>	<u>376,609</u>
Total expenses	<u>1,434,996</u>	<u>-</u>	<u>1,434,996</u>	<u>1,983,362</u>
Change in net assets from operations before other items	<u>(172,254)</u>	<u>(114,310)</u>	<u>(286,564)</u>	<u>(1,099,231)</u>
OTHER ITEMS				
Realized gain on investments	52,991	134,308	187,299	911,063
Unrealized (loss) gain on investments	(393,276)	(996,765)	(1,390,041)	367,869
Expiration of funds	-	-	-	(591,989)
Extinguishment of debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,986</u>
Total other items	<u>(340,285)</u>	<u>(862,457)</u>	<u>(1,202,742)</u>	<u>1,154,929</u>
Change in net assets	(512,539)	(976,767)	(1,489,306)	55,698
Net assets at beginning of year	<u>2,144,447</u>	<u>8,456,507</u>	<u>10,600,954</u>	<u>10,545,256</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,631,908</u>	<u>\$ 7,479,740</u>	<u>\$ 9,111,648</u>	<u>\$ 10,600,954</u>

See accompanying notes to financial statements.

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	2022				2021	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising			
Marine Corps University support	\$ 360,348	\$ -	\$ -	\$ -	\$ 360,348	\$ 882,584
Scholarship support	185,301	-	-	-	185,301	172,841
Other salaries	116,176	39,467	180,443	219,910	336,086	326,291
Compensation of officers	125,182	36,727	96,727	133,454	258,636	255,749
Events	-	-	113,537	113,537	113,537	13,843
Professional fees	72,500	20,714	10,357	31,071	103,571	114,483
Occupancy	46,451	13,272	6,636	19,908	66,359	67,092
Other expenses	29,478	7,208	13,042	20,250	49,728	86,128
Payroll taxes	18,280	5,771	20,992	26,763	45,043	47,636
Printing and publications	6,156	4,617	4,617	9,234	15,390	14,286
Pension plan contributions	4,783	1,510	5,493	7,003	11,786	13,185
Depreciation and amortization	1,923	550	275	825	2,748	3,087
Total expenses	966,578	129,836	452,119	581,955	1,548,533	1,997,205
Less: Event expenses included with revenue	-	-	(113,537)	-	(113,537)	(13,843)
TOTAL	\$ 966,578	\$ 129,836	\$ 338,582	\$ 468,418	\$ 1,434,996	\$ 1,983,362

See accompanying notes to financial statements.

MARINE CORPS UNIVERSITY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,489,306)	\$ 55,698
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	2,748	3,087
Change in discount on noncurrent pledges	-	(787)
Realized gain on sale of investments	(187,299)	(911,063)
Unrealized loss (gain) on investments	1,390,041	(367,869)
Pledge write off	-	591,989
Contributions to be maintained in perpetuity	(14,000)	(3,200)
Receipt of contributed securities	250,609	1,554
Proceeds from sale of contributed securities	(250,609)	(1,554)
Extinguishment of debt	-	(467,986)
(Increase) decrease in:		
Contributions receivable	(35,588)	10,305
Pledges receivable	25,000	355,153
Inventory	8,780	1,780
Prepaid expenses	3,241	(14,308)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(24,236)	(84,971)
Deferred income	<u>(55,941)</u>	<u>45,900</u>
Net cash used by operating activities	<u>(376,560)</u>	<u>(786,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of computer equipment	(8,180)	(2,705)
Purchase of investments	(4,186,702)	(5,653,745)
Proceeds from sales of investments	<u>4,390,956</u>	<u>5,859,173</u>
Net cash provided by investing activities	<u>196,074</u>	<u>202,723</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	-	243,880
Contributions to be maintained in perpetuity	<u>14,000</u>	<u>3,200</u>
Net cash provided by financing activities	<u>14,000</u>	<u>247,080</u>
Net decrease in cash and cash equivalents	(166,486)	(336,469)
Cash and cash equivalents at beginning of year	<u>436,601</u>	<u>773,070</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 270,115</u>	<u>\$ 436,601</u>
SCHEDULE OF NONCASH TRANSACTIONS		
Extinguishment of Debt	<u>\$ -</u>	<u>\$ 467,986</u>

See accompanying notes to financial statements.

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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, 2021, from which the summarized information was derived.

New accounting pronouncements adopted -

During 2022, MCUF adopted ASU 2019-01, *Leases* (Topic 842), which changed 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. MCUF applied the new standard at the inception of a new lease that began in 2021 and also the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

New accounting pronouncements adopted (continued) -

During the year ended December 31, 2022, MCUF adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles in the United States (U.S. GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. 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 was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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 \$90,858 at December 31, 2022. 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.

Contributions receivable -

Contributions 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, 2022.

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.

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.

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.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Investments (continued) -

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.

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.

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, 2022, 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.

Revenue -

Events and membership dues revenue are classified as exchange transactions following ASU 2014-09, *Revenue from Contracts With Customers*, and are recorded as revenue when performance obligations are met. MCUF has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost.

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.

Membership dues in the amount of \$45,000 for the year ended December 31, 2022 includes membership contribution in the amount of \$40,800 to MCUF as well as event revenue in the amount of \$4,200 which is based on benefits received by the member attending the event. This amount is classified as "member event benefit redemption" revenue.

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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

Revenue (continued) -

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.

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 \$115,000 in unrecognized conditional awards as of December 31, 2022. Of this, \$44,959 was included in deferred income on the Statement of Financial Position as of December 31, 2022.

Contributed services and materials -

Contributed services and materials consisted of donated assets and professional services. Goods donated for distribution for MCUF's programs are recorded at their fair market value as of the date of the gift. Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by MCUF.

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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

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.

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.

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

New accounting pronouncements (not yet adopted) -

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for MCUF for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

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.

2. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2022:

Computer and other equipment	\$ 21,934
Leasehold improvements	9,258
Furniture and fixtures	<u>61,216</u>
 Total cost	 92,408
Less: Accumulated depreciation and amortization	<u>(82,728)</u>
 FURNITURE AND EQUIPMENT, NET	 <u>\$ 9,680</u>

Depreciation and amortization expense for the year ended December 31, 2022 was \$2,748.

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, 2022 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	\$ 90,858	\$ -	\$ -	\$ 90,858
Fixed income exchange traded funds	3,027,684	-	-	3,027,684
Equity exchange traded funds	5,722,024	-	-	5,722,024
Alternative investments	<u>-</u>	<u>-</u>	<u>2,641</u>	<u>2,641</u>
 TOTAL	 <u>\$ 8,840,566</u>	 <u>\$ -</u>	 <u>\$ 2,641</u>	 <u>\$ 8,843,207</u>

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

3. INVESTMENTS (Continued)

Included in investment loss are the following:

Interest and dividends, net of fees in the amount of \$46,288	\$ 96,943
Realized gain	187,299
Unrealized loss	<u>(1,390,041)</u>
TOTAL INVESTMENT LOSS, NET	<u>\$ (1,105,799)</u>

The following table provides a summary of changes in fair value of MCUF's Level 3 financial assets for the year ended December 31, 2022:

BALANCE AT DECEMBER 31, 2022	<u>\$ 2,641</u>
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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, 2022. 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.
- *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. BOARD DESIGNATED NET ASSETS

As of December 31, 2022, net assets without donor restrictions have been designated by the Board of Trustees for the following purposes:

Quasi-Endowment to Fund General Operations	<u>\$ 375,248</u>
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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, 2022**

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31, 2022:

Endowments invested in perpetuity	\$ 5,346,021
Subject to expenditure for specified purpose:	
Tim Day Fund	350,000
Harvard Scholarship Fund	244,974
MCU Case Study	97,644
MCU Library Archives	89,852
Emerald Express	49,851
Pritzner Military Foundation	18,233
MCU Journal	16,574
Amgrunts	12,720
Center for Applied Creativity	12,000
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>1,221,624</u>

NET ASSETS WITH DONOR RESTRICTIONS \$ 7,479,740

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:	
Harvard Scholarship Fund	\$ 185,301
Computer Support	8,180
Pritzner Military Foundation	6,767
Time release	25,000
Endowment earnings authorized for programmatic spending	<u>262,059</u>

NET ASSETS RELEASED FROM DONOR RESTRICTIONS \$ 487,307

6. LIQUIDITY

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

Cash and cash equivalents	\$ 270,115
Contributions receivable	42,709
Investments	8,840,566
Less: Board designated net assets	(375,248)
Less: Donor restrictions for specific purposes	<u>(7,479,740)</u>
FINANCIAL ASSETS AVAILABLE FOR USE	<u>\$ 1,298,402</u>

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. LIQUIDITY (Continued)

MCUF has a policy to structure its financial assets to be available and liquid as its obligations become due.

7. 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, 2022:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>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	-	5,346,021	5,346,021
Accumulated investment earnings	<u>22,516</u>	<u>1,221,624</u>	<u>1,244,140</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 375,248</u>	<u>\$ 6,567,645</u>	<u>\$ 6,942,893</u>

MARINE CORPS UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

7. ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 418,994	\$ 7,612,645	\$ 8,031,639
Redesignation of endowment funds	-	(4,000)	(4,000)
Investment loss, net	(43,746)	(792,941)	(836,687)
Contributions to endowment	-	14,000	14,000
Amounts appropriated for expenditure	-	(262,059)	(262,059)
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>375,248</u>	\$ <u>6,567,645</u>	\$ <u>6,942,893</u>

Net assets restricted for endowments consisted of the following funds at December 31, 2022:

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	63,500
Brody Memorial Fund for Operations	50,000
Rose Award for Teaching Excellence	50,150
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	15,200
Endowment net assets with donor restrictions	5,346,021
Endowment net assets without donor restrictions	352,732
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>5,698,753</u>

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, 2022.

MARINE CORPS UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

7. 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.

8. 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, 2022 was \$60,000 and is included in Occupancy on the accompanying Statement of Functional Expenses. The lease was extended through December 31, 2023. The terms of the additional lease are for \$66,000 rent per year, due in equal monthly installments.

9. 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 2022 was \$11,786.

10. SUBSEQUENT EVENTS

In preparing these financial statements, MCUF has evaluated events and transactions for potential recognition or disclosure through March 16, 2023, the date the financial statements were issued.