

**MARINE CORPS ASSOCIATION AND
MARINE CORPS ASSOCIATION FOUNDATION**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2019 AND 2018



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**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	19
SUPPLEMENTARY INFORMATION	
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	20
CONSOLIDATING STATEMENT OF ACTIVITIES	21



INDEPENDENT AUDITORS' REPORT

Board of Governors
Marine Corps Association
Marine Corps Association Foundation
Quantico, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Marine Corps Association and Marine Corps Association Foundation, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

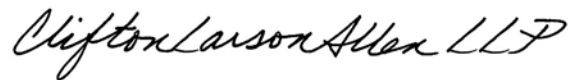
Board of Governors
Marine Corps Association
Marine Corps Association Foundation

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Marine Corps Association and Marine Corps Association Foundation as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Marine Corps Association and Marine Corps Association Foundation has adopted Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Arlington, Virginia
October 21, 2020

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

ASSETS	2019	2018
CURRENT ASSETS		
Cash	\$ 864,394	\$ 791,485
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2019 and 2018	435,981	259,888
Contributions Receivable	49,955	38,668
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2019 and 2018	2,758,128	2,117,563
Prepaid Expenses and Deposits	149,017	242,064
Total Current Assets	4,257,475	3,449,668
INVESTMENTS	9,960,355	9,176,317
PROPERTY AND EQUIPMENT		
Land	106,000	106,000
Building and Building Improvements	8,708,763	8,694,211
Furniture, Software, Equipment, and Vehicles	1,147,566	2,169,764
Total	9,962,329	10,969,975
Less: Accumulated Depreciation	6,922,205	7,694,005
Total Property and Equipment	3,040,124	3,275,970
OTHER ASSETS	40,000	40,000
Total Assets	\$ 17,297,954	\$ 15,941,955
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,164,591	\$ 845,188
Note Payable	-	-
Capital Lease Obligations	6,870	24,911
Deferred Revenue:		
Subscriptions	1,393,210	1,219,634
Other	47,250	61,078
Total Deferred Revenue	1,440,460	1,280,712
Total Current Liabilities	2,611,921	2,150,811
LINE OF CREDIT	500,000	-
CAPITAL LEASE OBLIGATIONS, Net of Current Portion	-	6,718
DEFERRED SUBSCRIPTIONS REVENUE, Net of Current Portion	965,909	1,644,489
Total Liabilities	4,077,830	3,802,018
NET ASSETS		
Without Donor Restrictions	12,749,477	11,632,410
With Donor Restrictions:		
Time or Purpose Restrictions	415,547	452,427
Perpetual in Nature	55,100	55,100
Total Net Assets	13,220,124	12,139,937
Total Liabilities and Net Assets	\$ 17,297,954	\$ 15,941,955

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
REVENUE		
Retail Operations	\$ 7,005,397	\$ 7,527,179
Publications and Membership	2,659,666	2,602,941
Group Benefit Programs - Health and Life Insurance	98,749	113,873
Interest, Dividends, and Realized Gains, Net of Fees	899,634	418,419
Royalties	55,000	54,628
Sponsorships	852,988	752,876
Contributions	1,248,525	1,213,976
Other	664,340	616,126
Net Assets Released from Restrictions - Awards	402,537	480,254
Total Revenue	<u>13,886,836</u>	<u>13,780,272</u>
EXPENSES		
Retail Operations	6,501,201	6,895,633
Publications and Membership	1,675,501	1,771,732
Professional Development	621,823	703,600
Awards and Other	1,094,193	915,715
Management and General	2,826,750	3,040,917
Fundraising	489,698	477,186
Total Expenses	<u>13,209,166</u>	<u>13,804,783</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE UNREALIZED GAIN (LOSS) ON INVESTMENTS	677,670	(24,511)
Unrealized Gain (Loss) on Investments	<u>439,397</u>	<u>(1,118,347)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,117,067	(1,142,858)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	365,657	424,859
Interest, Dividends, and Realized Gains	-	4,290
Net Assets Released from Restrictions - Awards	<u>(402,537)</u>	<u>(480,254)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(36,880)</u>	<u>(51,105)</u>
CHANGE IN NET ASSETS	1,080,187	(1,193,963)
Net Assets - Beginning of Year	<u>12,139,937</u>	<u>13,333,900</u>
NET ASSETS - END OF YEAR	<u>\$ 13,220,124</u>	<u>\$ 12,139,937</u>

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,080,187	\$ (1,193,963)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	327,820	360,317
Unrealized (Gain) Loss on Investments	(439,397)	1,118,347
Realized Gain on Sales of Investments	(639,799)	(242,483)
Loss on Disposal of Property and Equipment	62,132	-
Change in Assets and Liabilities:		
Accounts Receivable	(176,093)	32,926
Contributions Receivable	(11,287)	1,334
Inventory	(640,565)	(408,730)
Prepaid Expenses and Deposits	93,047	253,764
Accounts Payable and Accrued Expenses	319,403	134,547
Deferred Revenue	(518,832)	(70,788)
Net Cash Used in Operating Activities	(543,384)	(14,729)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(23,119,358)	(3,029,563)
Sales and Maturities of Investments	23,414,516	3,080,750
Purchases of Property and Equipment	(154,106)	(241,472)
Net Cash Provided by (Used in)Investing Activities	141,052	(190,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Advances	500,000	-
Payments on Note Payable and Capital Lease Obligations	(24,759)	(23,933)
Net Cash Provided by (Used in) Financing Activities	475,241	(23,933)
NET INCREASE (DECREASE) IN CASH	72,909	(228,947)
Cash - Beginning of Year	791,485	1,020,432
CASH - END OF YEAR	\$ 864,394	\$ 791,485
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 13,360	\$ 1,558

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Marine Corps Association (MCA), a nonprofit organization as defined under Section 501(c)(19) of the Internal Revenue Code, was formed in 1913 and incorporated in the District of Columbia in 1972. MCA is the preeminent association devoted to providing professional development and selected services to Marines. The Association disseminates knowledge of the military arts and sciences among its Marines, provides opportunities for professional development for Marines, and fosters the spirit and preserves the traditions of the Marine Corps.

To effect the above, MCA produces two monthly publications, the Marine Corps Gazette and the Leatherneck Magazine of the Marines (included in Publications and Membership). The Marine Corps Gazette's mission has remained unchanged during its 103 years of publication: that is "to provide a forum for the exchange of ideas that will advance knowledge, interest, and esprit in the Marine Corps." Leatherneck Magazine continues its commitment to telling the Corps' story with articles on its illustrious history, current operations and exercises, continuing updates on the organization and equipment of Marines, and plans for the future. These magazines are offered as part of the benefits of MCA membership.

Since the MCA is the premier provider of all in-print books listed on the Marine Corps professional reading program, it operates a retail book service (both online and through brick and mortar stores) for the convenience of members in building their own professional libraries. Bookstores are located in Camp Lejeune, North Carolina and within The Marine Shop in Quantico, Virginia. Effective June 28, 2019, the Camp Lejeune bookstore was closed. The mail order service is located in Quantico, Virginia, in the MCA headquarters. With the purchase of The Marine Shop in Quantico, VA, in January 2007, MCA is now able to offer quality uniforms, accessories, and services to all Marines. These products and services complement MCA's other professional offerings and enable MCA to better serve all Marines' needs.

Approximately one-third of MCA's members are active duty Marines. The remainder are primarily retired or veteran Marines. In addition to sending members their choice of the magazines described above, MCA provides member value by offering its members participation in its professional development events, member value pricing on MCA merchandise, and sponsoring a group benefit program for its members that includes group term life insurance, various group health care plans and affinity programs, such as a low-interest credit card and discount programs on computers.

In April 2009, the Marine Corps Association Foundation (MCAF), a nonprofit organization as defined under Section 501(c)(3) of the Internal Revenue Code, was formed to support and expand the programs and activities of the Marine Corps Association. MCA and MCAF collectively are known as MCA&F. MCA&F sponsors a large range of professional military education (PME) presentations developed to provide educational experiences for Marines on topics most critical to the Marine Corps. MCAF sponsors the attendance of active duty Marines at MCA&F events where they have an opportunity to come together for lively discussions and listen to noteworthy key speakers.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

MCAF is also committed to providing well-earned recognition to superior performing Marines as well as emerging leaders at the USNA and NROTC units across the nation through the Marine Excellence Award Program. The Organization is the largest provider of awards to Marines in the world, with more than 5,000 Excellence Awards and 74 Writing Awards given to Marines in 2019, recognizing scholastic, leadership, and technical skill accomplishments.

MCAF provides grants and assists Commanders in developing and providing forum opportunities specifically tailored to enhance their Marines' and Sailors' knowledge of the operational matters from a historical, cultural, and operational perspective. In 2019, 94 forums served over 9,000 Marine leaders. Grants are also provided to commanders to establish and sustain 173 professional libraries. 51,000 Marines were served in 2019 through these libraries.

While MCA and MCAF operate as separate entities, the financial reporting of the entities is required to be consolidated under accounting standards as both entities share a common board of directors. Significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with U.S. generally accepted accounting principles. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

Use of Estimates

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

Income Tax Status

MCA and MCAF are tax-exempt, but are both subject to income taxes on unrelated business activities.

MCA and MCAF have adopted the guidance on the income tax standard regarding the recognition and measurement of uncertain tax positions. The adoption of this standard had no impact on the consolidated financial statements. Both Organizations file as a tax-exempt organization.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTES 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. All accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against the allowance for doubtful accounts or bad debt expense. MCA maintained an allowance for doubtful account provision of \$20,000 as of December 31, 2019 and 2018, in the event that certain receivables are not collectible.

Inventory

Inventory consists of professional books, manuscripts, Marine Corps memorabilia and Marine Corps uniforms and accessories for resale and is stated at the lower of cost or net realizable value using the average cost method of valuation. A \$60,000 allowance for obsolete inventory was recorded as of December 31, 2019 and 2018, to recognize the possible write-offs due to dated and obsolete items.

Investments

Investments in equity and fixed income securities are carried at fair value as determined by quoted market prices. Changes in fair value are recognized in the consolidated statements of activities. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method. Included in property and equipment are computer hardware and software costs and vehicles. Assets with a cost of \$1,500 or more and useful lives of at least one year are capitalized. The MCA building is being depreciated over the life of the lease of the land on which it is located; the annex building is being depreciated over 25 years; and the Marine Shop is being depreciated over 40 years. Furniture, equipment, software, and vehicles are depreciated over their estimated useful lives, ranging from three to ten years.

Deferred Revenue

Deferred revenue consists of advance royalty and advertising payments and magazine subscriptions of one to three years and life member subscriptions that are recognized ratably over the period to which they relate.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the Organizations, their net assets and revenue have been classified into net asset groups based on the existence or absence of donor-imposed restrictions. The classes of net assets are as follows:

Net Assets without Donor Restrictions – Represents resources of the Organizations available to support general operations.

Net Assets with Donor Restrictions – Represents resources that result from contributions and investment income limited to use by donor-imposed or time stipulations, primarily for the MCAF awards and events programs. Such restrictions either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Perpetual in Nature – Represents Endowment Funds to be held in perpetuity by MCA. Investment income earned on these endowment funds is temporarily restricted for their purposes. The “Major General Richard C. Schulze Memorial Essay Fund” and the “Colonel Francis Fox Parry Award Fund” support an annual Memorial Essay contest and an award for the best combat initiative article, respectively. Both writings are published in the *Marine Corps Gazette*. The “Colonel Phil Yeckel Award Fund” supports the honor graduate of each class in the Marine Corps Officer Candidate School.

Shipping and Handling Costs

MCA classifies shipping and handling costs as cost of goods sold and such costs are included in the Retail Operations expense line item in the accompanying statements of activities. The shipping and handling costs included in cost of goods sold total to approximately \$420,900 and \$486,300, for the years ended December 31, 2019 and 2018, respectively.

Advertising Costs

Advertising costs, which include media and print advertising, supplies and complimentary material for direct mail to new and existing members, plus catalogs and postage, are expensed as incurred. Advertising costs charged to expense totaled approximately \$100,000 and \$91,000 for the years ended December 31, 2019 and 2018, respectively.

Measure of Operations

The Organization considers unrealized gain (loss) on investments to be an item not included in operations.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

MCA accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. MCA accounts for certain financial assets and liabilities at fair value under various accounting literature. MCA also accounts for certain assets at fair value under applicable industry guidance.

Fair Value Hierarchy

MCA 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 the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that MCA has the ability to access. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange. MCA's Level 1 securities consist of fixed income and equities securities.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in nonactive markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

MCA's investments did not include any Level 2 funds at December 31, 2019 and 2018.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy (Continued)

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. MCA does not have any Level 3 investments.

Change in Accounting Principles

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The guidance provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. During the year ended December 31, 2019 MCA and MCAF adopted the requirements of ASU 2018-08 for contributions received using the modified retrospective approach, which did not result in an adjustment to beginning net assets.

Subsequent Events

In preparing the consolidated financial statements, MCA and MCAF has evaluated events and transactions for potential recognition or disclosure through October 21, 2020, the date the consolidated financial statements were available to be issued.

Subsequent to year end, a pandemic of the Corona Virus (COVID-19) was declared by the World Health Organization. As a result, event revenues and expenses of MCA and MCAF are uncertain. This could also impact transactions relating to customers and vendors. In addition, both domestic and international equity markets have experienced significant declines since December 31, 2019. As of October 21, 2020, the amount and likelihood of loss relating to these events is not determined.

In April 2020, MCA obtained a 2-year CARES Act term loan of \$827,600 from a financial institution. The loan requires monthly payments of principal and interest at 1.00% starting November 2020 and is due April 2022. The CARES Act loan includes a feature that allows forgiveness of the loan if the funds are used to cover certain operating expense items.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. The reclassifications had no impact on previously reported net assets.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Cash and Cash Equivalents	\$ 448,847	\$ 339,058
Accounts Receivable	435,981	259,888
Investments	9,905,255	9,121,217
Contributions Receivable	49,955	38,668
Total	<u>\$ 10,840,038</u>	<u>\$ 9,758,831</u>

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of MCA's liquidity management plan, cash in excess of daily requirements are invested in CDs and money market funds.

NOTE 3 CONCENTRATION OF CREDIT RISK

Credit Risk

Financial instruments that subject the Organizations to a concentration of credit risk consist of demand deposits placed with financial institutions which may, at times, exceed federally insured limits.

NOTE 4 INVESTMENTS AND FAIR VALUE

Investments are recorded at fair value and are classified as long-term assets based on the intentions of MCA. The investment strategies and asset allocation have been selected with the goal of attaining a growth of principal that will, at a minimum, maintain a constant level of purchasing power. Investments consist of the following at December 31:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 53,364	\$ 53,364	\$ 287,843	\$ 287,843
Money Market	694,182	694,182	274,378	274,378
Mutual Funds - Equities	5,057,209	5,148,093	3,102,828	2,878,685
ETF - Equities	1,066,227	1,108,006	354,978	308,616
Common Stock	-	-	1,479,427	1,612,052
Mutual Funds - Fixed Income	2,908,142	2,916,811	920,088	849,125
ETF - Fixed Income	37,810	39,899	112,856	112,754
Corporate Bonds	-	-	2,939,895	2,852,864
Total	<u>\$ 9,816,934</u>	<u>\$ 9,960,355</u>	<u>\$ 9,472,293</u>	<u>\$ 9,176,317</u>

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 INVESTMENTS AND FAIR VALUE (CONTINUED)

The following table presents MCA's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

	2019			Total
	Level 1	Level 2	Level 3	
Money Market	\$ 694,182	\$ -	\$ -	\$ 694,182
Mutual Funds - Equities	5,148,093	-	-	5,148,093
ETF - Equities	1,108,006	-	-	1,108,006
Mutual Funds - Fixed Income	2,916,811	-	-	2,916,811
ETF - Fixed Income	39,899	-	-	39,899
Total	<u>\$ 9,906,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,906,991</u>

	2018			Total
	Level 1	Level 2	Level 3	
Money Market	\$ 274,378	\$ -	\$ -	\$ 274,378
Mutual Funds - Equities	2,878,685	-	-	2,878,685
ETF - Equities	308,616	-	-	308,616
Common Stock	1,612,052	-	-	1,612,052
Mutual Funds - Fixed Income	849,125	-	-	849,125
ETF - Fixed Income	112,754	-	-	112,754
Corporate Bonds	2,852,864	-	-	2,852,864
Total	<u>\$ 8,888,474</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,888,474</u>

Return on investments consists of the following at December 31:

	2019	2018
Interest and Dividends, Net of Fees	\$ 259,835	\$ 180,226
Realized Gain	639,799	242,483
Total	899,634	422,709
Unrealized Gain (Loss)	439,397	(1,118,347)
Total	<u>\$ 1,339,031</u>	<u>\$ (695,638)</u>

NOTE 5 CAPITAL LEASES

MCA entered into leases for a new copier machine during 2016 and other equipment in prior years under long-term lease agreements, which are classified as capital leases. The value of the copier machine and other equipment have been capitalized and recorded as furniture and equipment within the consolidated statements of financial position and is being depreciated on a straight-line basis. As of December 31, 2019, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$90,590, respectively. As of December 31, 2018, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$64,558, respectively. Imputed interest rates ranging from 3.0% to 19.5% are being amortized over the lease terms.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 CAPITAL LEASES (CONTINUED)

Future minimum lease payments for the year ending December 31, 2020 totals \$7,014. Such payments include implied interest of \$144.

NOTE 6 LINE OF CREDIT

MCA has a \$500,000 revolving line of credit with a financial institution. The line of credit is secured by cash balances. As of December 31, 2019, MCA withdrew from its line the full \$500,000. Borrowings under this line of credit at December 31, 2019 bear interest at 4.185%. The line of credit expires, if not renewed, on May 22, 2021.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2019 and 2018:

	2019	2018
Commanders' Forum Program	\$ 34,514	\$ 8,500
Marine Excellence Awards Program	64,579	86,065
Marine Writing Awards Program	74,119	64,657
Wounded Marine Support Program	22,404	89,671
Events	218,006	199,684
Commander's Unit Library	1,925	3,850
Total	\$ 415,547	\$ 452,427

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2019	2018
Time and Purpose Restriction	\$ 402,537	\$ 480,254

NOTE 8 ENDOWMENTS

Endowments (the Endowment) consist of approximately three individual funds established by donors to provide annual funding for specific activities. The Endowment also includes certain unrestricted net assets designated for endowment by the Board of Governors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTES 8 ENDOWMENTS (CONTINUED)

The Board of Governors has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, we classify as perpetual in nature net assets (a)the original value of gifts donated to the Endowment, (b)the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value), and (c)accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowments are to be held in perpetuity and the net earnings may be used for the following Award Programs as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Yeckel OCS Award	\$ 10,000	\$ 10,000
Schulze Essay Award	25,100	25,100
Parry Writing Award	20,000	20,000
Total	<u>\$ 55,100</u>	<u>\$ 55,100</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019, funds with original gift values of \$55,100, fair values of \$55,100, and deficiencies of \$-0- were reported in net assets with donor restrictions.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 OFFICE SUBLEASE

MCA entered into a three-year sublease agreement with a tenant for office space in the Headquarters building effective January 1, 2016. Future minimum sublease payments are as follows:

Year Ending December 31,	Amount
2020	\$ 21,600
2021	21,600
	\$ 43,200

NOTE 10 GROUP BENEFIT PROGRAMS

Group Term Life Insurance Plan

MCA sponsors a group term life insurance plan for its members through Hartford Life Insurance, which is administered by a third-party administrator. Under the plan, MCA receives a royalty fee of 7% of the annual premiums. For the years ended December 31, 2019 and 2018, royalties totaled \$48,390 and \$56,739, respectively.

Group Health Care Plans

MCA also sponsors various types of health insurance plans for its members which are underwritten by various insurance companies and administered by a third-party administrator. Under the agreements with the third-party administrator, MCA receives a royalty fee of 1% - 10% of annual premiums. For the years ended December 31, 2019 and 2018, royalty fees totaled \$45,414 and \$57,134, respectively.

MCA also received dividends of \$3,980 and \$-0- from the insurance carriers for the years ended December 31, 2019 and 2018, respectively, as a result of the plans' claims experience being lower than anticipated.

NOTE 11 RETIREMENT PLAN

MCA sponsors a 401(k) plan which covers all employees who meet certain eligibility requirements. Under the plan, MCA matches contributions up to 5% of an employee's annual wages. The employees in the plan become fully vested after three years of service. Retirement plan expense for the years ended December 31, 2019 and 2018, totaled \$153,082 and \$152,816, respectively.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 FUNCTIONAL EXPENSES

The Organizations are required to disclose their direct and indirect expenses on a functional basis. As a result, the Organizations have allocated their indirect expenses to the program and supporting services benefited on the basis of estimated time worked in each area. Fully allocated expenses, by function, are as follows for the years ended December 31:

The tables below present expenses by both their nature and function for the years ended December 31, 2019 and 2018:

2019	Program Services				Support Services			Total Expenses
	Retail Operations	Publications and Membership	Professional Development	Awards and Other	Total Program Expenses	Fundraising	Management and General	
Salaries and Benefits	\$ 1,008,252	\$ 883,597	\$ 225,346	\$ 257,737	\$ 2,374,932	\$ 116,447	\$ 1,771,168	\$ 4,262,546
Direct Expenses	179,016	9,561	379,182	644,686	1,212,445	500	152,313	1,365,258
Cost of Goods Sold	4,395,602	621,066	-	-	5,016,668	-	-	5,016,668
Professional Services	-	-	-	-	-	75,000	40,891	115,891
Office and Occupancy	770,709	152,843	15,288	191,357	1,130,196	294,381	696,406	2,120,983
Depreciation	147,623	8,435	2,006	412	158,476	3,371	165,972	327,820
Total Expenses	\$ 6,501,201	\$ 1,675,501	\$ 621,823	\$ 1,094,193	\$ 9,892,718	\$ 489,698	\$ 2,826,750	\$ 13,209,166

2018	Program Services				Support Services			Total Expenses
	Retail Operations	Publications and Membership	Professional Development	Awards and Other	Total Program Expenses	Fundraising	Management and General	
Salaries and Benefits	\$ 1,199,596	\$ 837,703	\$ 303,173	\$ 254,527	\$ 2,594,999	\$ 117,295	\$ 1,712,970	\$ 4,425,264
Direct Expenses	187,507	10,362	328,506	590,119	1,116,493	5,385	227,553	1,349,432
Cost of Goods Sold	4,543,525	717,443	-	-	5,260,969	-	-	5,260,969
Professional Services	-	-	-	-	-	72,191	36,016	108,207
Office and Occupancy	843,074	174,707	61,328	66,123	1,145,233	279,035	876,327	2,300,595
Depreciation	121,931	31,516	10,593	4,946	168,986	3,280	188,052	360,317
Total Expenses	\$ 6,895,633	\$ 1,771,732	\$ 703,600	\$ 915,715	\$ 10,286,680	\$ 477,186	\$ 3,040,917	\$ 13,804,783

NOTE 13 INCOME TAXES

MCA is subject to income taxes on its unrelated business income tax activities, which consist of advertising in its two monthly publications. Income tax expense was \$-0- for the years ended December 31, 2019 and 2018.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 14 COMMITMENTS

Land Lease with U.S. Government

The U.S. government provides 1.3957 acres of land at no monetary cost to MCA in exchange for the U.S. government's use of approximately 6,000 square feet of administrative space in MCA's building on that land. The terms of this agreement began on April 1, 2011 and end on June 30, 2026. In the event the U.S. government vacates the administrative space, MCA shall pay annual rent in the amount of \$14,000. As the substance of this agreement represents an arm's length transaction recorded at fair value for both parties, no contribution has been recorded on the consolidated statement of activities.

Severance

In the event of an involuntary termination due to a reduction in force or downsizing, change in company direction, or job elimination, MCA provides a severance benefit for the affected employees as part of a Separation Pay Agreement and Release. The rate of severance is based upon service with MCA.

Hotel Commitments

MCA has entered into several agreements with hotels to reserve room and facility space for future meetings scheduled to be held through 2020. In the event of cancellation, MCA may be liable for certain amounts, depending on when cancellation occurs. As of December 31, 2019, the maximum contingency for liquidated damages is approximately \$150,000.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Governors
Marine Corps Association
Marine Corps Association Foundation
Quantico, Virginia

We have audited the consolidated financial statements of the Marine Corps Association and Marine Corps Association Foundation as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated October 21, 2020, which expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 21, 2020

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	Consolidating Information			Consolidated
	MCA	MCAF	Eliminations	Total
CURRENT ASSETS				
Cash	\$ 654,946	\$ 209,448	\$ -	\$ 864,394
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2019	437,052	-	(1,071)	435,981
Contributions Receivable	-	49,955	-	49,955
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2019	2,758,128	-	-	2,758,128
Prepaid Expenses and Deposits	89,608	59,409	-	149,017
Total Current Assets	3,939,734	318,812	(1,071)	4,257,475
INVESTMENTS	9,637,738	322,617	-	9,960,355
PROPERTY AND EQUIPMENT				
Land	106,000	-	-	106,000
Building and Building Improvements	8,708,763	-	-	8,708,763
Furniture, Software, Equipment, and Vehicles	1,125,835	21,731	-	1,147,566
Total	9,940,598	21,731	-	9,962,329
Less: Accumulated Depreciation	6,909,834	12,371	-	6,922,205
Total Property and Equipment	3,030,764	9,360	-	3,040,124
OTHER ASSETS	40,000	-	-	40,000
Total Assets	\$ 16,648,236	\$ 650,789	\$ (1,071)	\$ 17,297,954
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,115,831	\$ 49,831	\$ (1,071)	\$ 1,164,591
Capital Lease Obligations	6,870	-	-	6,870
Deferred Revenue:				
Subscriptions	1,393,210	-	-	1,393,210
Other	16,315	30,935	-	47,250
Total Deferred Revenue	1,409,525	30,935	-	1,440,460
Total Current Liabilities	2,532,226	80,766	(1,071)	2,611,921
LINE OF CREDIT	500,000	-	-	500,000
DEFERRED SUBSCRIPTIONS REVENUE, Net of Current Portion	965,909	-	-	965,909
TENANT DEPOSITS, NET OF CURRENT PORTION	-	-	-	-
Total Liabilities	3,998,135	80,766	(1,071)	4,077,830
NET ASSETS				
Without Donor Restrictions	12,352,390	397,087	-	12,749,477
With Donor Restrictions:				
Time or Purpose Restrictions	242,611	172,936	-	415,547
Perpetual in Nature	55,100	-	-	55,100
Total Net Assets	12,650,101	570,023	-	13,220,124
Total Liabilities and Net Assets	\$ 16,648,236	\$ 650,789	\$ (1,071)	\$ 17,297,954

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information			Consolidated
	MCA	MCAF	Eliminations	Total
REVENUE				
Retail Operations	\$ 7,005,397	\$ -	\$ -	\$ 7,005,397
Publications and Membership	2,659,666	-	-	2,659,666
Group Benefit Programs - Health and Life Insurance	98,749	-	-	98,749
Interest, Dividends, and Realized Gain, Net of Fees	885,267	14,367	-	899,634
Royalties	55,000	-	-	55,000
Sponsorships	809,866	43,122	-	852,988
Contributions	23,621	1,349,904	(125,000)	1,248,525
Other	622,113	42,227	-	664,340
Net Assets Released from Restrictions - Awards	200,274	202,263	-	402,537
Total Revenue	<u>12,359,953</u>	<u>1,651,883</u>	<u>(125,000)</u>	<u>13,886,836</u>
EXPENSES				
Retail Operations	6,501,201	-	-	6,501,201
Publications and Membership	1,675,501	-	-	1,675,501
Professional Development	250,303	371,520	-	621,823
Awards and Other	449,507	644,686	-	1,094,193
Management and General	2,833,035	118,715	(125,000)	2,826,750
Fundraising	-	489,698	-	489,698
Total Expenses	<u>11,709,547</u>	<u>1,624,619</u>	<u>(125,000)</u>	<u>13,209,166</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE UNREALIZED GAIN ON INVESTMENTS	650,406	27,264	-	677,670
Unrealized Gain on Investments	431,455	7,942	-	439,397
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,081,861	35,206	-	1,117,067
NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	218,006	147,651	-	365,657
Net Assets Released from Restrictions - Awards	(200,274)	(202,263)	-	(402,537)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	17,732	(54,612)	-	(36,880)
CHANGE IN NET ASSETS	1,099,593	(19,406)	-	1,080,187
Net Assets - Beginning of Year	11,550,508	589,429	-	12,139,937
NET ASSETS - END OF YEAR	<u>\$ 12,650,101</u>	<u>\$ 570,023</u>	<u>\$ -</u>	<u>\$ 13,220,124</u>