

**MARINE CORPS ASSOCIATION
AND
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	6
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	17
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	18
CONSOLIDATING STATEMENT OF ACTIVITIES	19



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INDEPENDENT AUDITORS' REPORT

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

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, 2017 and 2016, 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 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, 2017 and 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 7, 2018

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,020,432	\$ 859,191
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2017 and 2016	292,814	133,339
Contributions Receivable	40,002	18,269
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2017 and 2016	1,708,833	1,813,046
Prepaid Expenses and Deposits	495,828	253,206
Total Current Assets	3,557,909	3,077,051
INVESTMENTS	10,103,368	9,461,759
PROPERTY AND EQUIPMENT		
Land	106,000	106,000
Building and Building Improvements	8,740,945	8,746,760
Furniture, Software, Equipment, and Vehicles	2,126,931	2,138,002
Total	10,973,876	10,990,762
Less: Accumulated Depreciation	7,579,061	7,307,855
Total Property and Equipment	3,394,815	3,682,907
Other Assets	40,000	40,000
Total Assets	\$ 17,096,092	\$ 16,261,717
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 710,641	\$ 829,412
Capital Lease Obligations	23,933	23,027
Deferred Revenue:		
Subscriptions	909,916	962,368
Other	47,974	70,062
Total Deferred Revenue	957,890	1,032,430
Total Current Liabilities	1,692,464	1,884,869
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	31,629	55,562
DEFERRED SUBSCRIPTIONS REVENUE, NET OF CURRENT PORTION	2,038,099	1,930,712
Total Liabilities	3,762,192	3,871,143
NET ASSETS		
Unrestricted	12,775,268	11,830,195
Temporarily Restricted	503,532	505,279
Permanently Restricted	55,100	55,100
Total Net Assets	13,333,900	12,390,574
Total Liabilities and Net Assets	\$ 17,096,092	\$ 16,261,717

See accompanying Notes to the Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUE		
Retail Operations	\$ 7,564,168	\$ 7,429,276
Publications and Membership	2,627,106	2,696,140
Group Benefit Programs - Health and Life Insurance	135,981	166,693
Interest, Dividends, and Realized Gains (Losses)	524,497	(199,629)
Royalties	57,714	150,000
Sponsorships	662,106	703,056
Contributions	1,371,246	1,030,709
Other	580,005	591,520
Net Assets Released from Restrictions - Awards	495,728	452,636
Total Revenue	<u>14,018,551</u>	<u>13,020,401</u>
EXPENSES		
Retail Operations	6,873,158	6,822,576
Publications and Membership	1,798,671	1,875,065
Professional Development	824,709	742,476
Awards and Other	692,818	792,611
Administrative and Other	3,082,971	3,098,992
Fundraising	445,187	410,973
Total Expenses	<u>13,717,514</u>	<u>13,742,693</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED GAINS ON INVESTMENTS	301,037	(722,292)
Unrealized Gains on Investments	<u>644,036</u>	<u>829,152</u>
CHANGE IN UNRESTRICTED NET ASSETS	945,073	106,860
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	486,998	459,281
Interest, Dividends, and Realized Gains	6,983	5,667
Net Assets Released from Restrictions - Awards	<u>(495,728)</u>	<u>(452,636)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(1,747)</u>	<u>12,312</u>
CHANGE IN NET ASSETS	943,326	119,172
Net Assets - Beginning of Year	<u>12,390,574</u>	<u>12,271,402</u>
NET ASSETS - END OF YEAR	<u>\$ 13,333,900</u>	<u>\$ 12,390,574</u>

See accompanying Notes to the Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 943,326	\$ 119,172
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	347,580	361,405
Unrealized Gain on Investments	(644,036)	(829,152)
Realized (Gain) Loss on Sales of Investments	(309,720)	428,487
Loss on Sale of Equipment	3,890	1,492
Change in Assets and Liabilities:		
Accounts Receivable	(159,475)	1,569
Contributions Receivable	(21,733)	35,694
Inventory	104,213	(187,899)
Prepaid Expenses and Deposits	(242,622)	(61,223)
Other Assets	-	(40,000)
Accounts Payable and Accrued Expenses	(118,771)	(62,749)
Deferred Revenue	32,847	56,892
Net Cash Used by Operating Activities	(64,501)	(176,312)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(6,185,728)	(4,741,373)
Sales and Maturities of Investments	6,497,875	4,681,594
Purchases of Property and Equipment	(63,378)	(22,381)
Proceeds from Sales of Equipment	-	13,672
Net Cash Provided (Used) by Investing Activities	248,769	(68,488)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable and Capital Lease Obligations	(23,027)	(35,416)
NET INCREASE (DECREASE) INCREASE IN CASH	161,241	(280,216)
Cash - Beginning of Year	859,191	1,139,407
CASH - END OF YEAR	\$ 1,020,432	\$ 859,191
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Equipment Acquired Through Capital Lease	\$ -	\$ 89,550
Interest Paid	\$ 2,343	\$ 2,976

See accompanying Notes to the Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 dedicated to being 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 throughout the Marine Corps family.

To effect the above, MCA produces two monthly publications, the *Marine Corps Gazette* and the *Leatherneck* (included in Publications and Membership). The *Marine Corps Gazette's* mission has remained unchanged during its 90 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." The *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. 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 THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organizations (Continued)

MCAF is also committed to providing well-earned recognition to superior performing Marines as well as emerging leaders in MCJROTC 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 8,000 Excellence Awards and 54 Writing Awards given to Marines in 2017, 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, or operational perspective. In 2017, 68 forums served over 7,400 Marine leaders. Grants are also provided to commanders to establish and sustain 225 professional libraries. Over 72,000 Marines were served in 2017 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.

Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 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, 2017 and 2016, 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 market using the average cost method of valuation. A \$60,000 allowance for obsolete inventory was recorded as of December 31, 2017 and 2016, 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.

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 THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Unrestricted Net Assets – Represents resources of the Organizations available to support general operations.

Temporarily Restricted Net Assets – 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.

Permanently Restricted Net Assets – 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 \$487,600 and \$431,400, for the years ended December 31, 2017 and 2016, 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 \$183,000 and \$159,000 for the years ended December 31, 2017 and 2016, 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 THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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.

Subsequent Events

In preparing these financial statements, MCA and MCAF have evaluated events and transactions for potential recognition or disclosure through June 7, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF 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.

Market Value Risk

MCA invests in a variety of investments. These investments are exposed to various risks, such as fluctuations in market value and credit risk. It is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

NOTE 3 INVESTMENTS

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.

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 INVESTMENTS (CONTINUED)

Investments consist of the following at December 31:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 8,353	\$ 8,898	\$ -	\$ -
Money Market	1,152,411	1,152,411	425,639	425,639
Mutual Funds - Equities	2,332,524	2,716,493	2,901,652	2,893,659
ETF - Equities	431,098	466,160	119,572	116,392
Common Stock	1,509,879	1,904,787	1,709,370	1,949,634
Mutual Funds - Fixed Income	920,088	905,347	986,751	947,256
ETF - Fixed Income	91,233	91,209	118,356	118,920
Corporate Bonds	2,835,411	2,858,063	3,022,084	3,010,259
Total	<u>\$ 9,280,997</u>	<u>\$ 10,103,368</u>	<u>\$ 9,283,424</u>	<u>\$ 9,461,759</u>

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, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 1,152,411	\$ -	\$ -	\$ 1,152,411
Mutual Funds - Equities	2,716,493	-	-	2,716,493
ETF - Equities	466,160	-	-	466,160
Common Stock	1,904,787	-	-	1,904,787
Mutual Funds - Fixed Income	905,347	-	-	905,347
ETF - Fixed Income	91,209	-	-	91,209
Corporate Bonds	2,858,063	-	-	2,858,063
Total	<u>\$ 10,094,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,094,470</u>

	2016			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 425,639	\$ -	\$ -	\$ 425,639
Mutual Funds - Equities	2,893,659	-	-	2,893,659
ETF - Equities	116,392	-	-	116,392
Common Stock	1,949,634	-	-	1,949,634
Mutual Funds - Fixed Income	947,256	-	-	947,256
ETF - Fixed Income	118,920	-	-	118,920
Corporate Bonds	3,010,259	-	-	3,010,259
Total	<u>\$ 9,461,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,461,759</u>

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 3 INVESTMENTS (CONTINUED)

Return on investments consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Interest and Dividends	\$ 221,760	\$ 234,525
Realized Gain (Loss)	309,720	(428,487)
Total	<u>531,480</u>	<u>(193,962)</u>
Unrealized Gain	644,036	829,152
Total	<u>\$ 1,175,516</u>	<u>\$ 635,190</u>

NOTE 4 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, 2017, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$40,625, respectively. As of December 31, 2016, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$15,805, respectively. Imputed interest rates ranging from 3.0% to 13.9% are being amortized over the lease terms.

Future minimum lease payments are as follows for the years ending December 31:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 26,355
2019	26,355
2020	7,014
2021	<u>-</u>
Total Minimum Lease Payments	59,724
Less: Amount Representing Interest	<u>(4,162)</u>
Present Value of Minimum Lease Payments	55,562
Less: Current Maturities	<u>(23,933)</u>
Noncurrent Portion of Obligations Under Capital Lease	<u>\$ 31,629</u>

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Commanders' Forum Program	\$ 8,618	\$ 6,350
Marine Excellence Awards Program	96,794	131,621
Marine Writing Awards Program	26,621	31,842
Wounded Marine Support Program	157,659	183,341
Events	193,800	152,125
Commander's Unit Library	20,040	-
Total	<u>\$ 503,532</u>	<u>\$ 505,279</u>

The net assets released from restrictions as of December 31, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Time and Purpose Restriction	<u>\$ 495,728</u>	<u>\$ 452,636</u>

Permanently restricted net assets consist of fund bequests from separate donors. The assets are to be held in perpetuity and the net earnings used for the following Awards Programs as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</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>

NOTE 6 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	<u>\$ 60,000</u>

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 7 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, 2017 and 2016, royalties totaled \$55,412 and \$56,788, 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, 2017 and 2016, royalty fees totaled \$57,044 and \$61,850, respectively.

MCA also received dividends of \$23,525 and \$48,055 from the insurance carriers for the years ended December 31, 2017 and 2016, respectively, as a result of the plans' claims experience being lower than anticipated.

NOTE 8 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, 2017 and 2016, totaled \$137,813 and \$134,705, respectively.

NOTE 9 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:

	2017	2016
Program Services:		
Retail Operations	\$ 8,061,403	\$ 8,099,897
Publications and Membership	2,682,742	2,813,274
Professional Development	533,991	559,138
Foundation	908,535	695,947
Total	12,186,671	12,168,256
Supporting Services:		
Fundraising	445,187	412,540
Administrative and Other	1,085,656	1,161,897
Total	\$ 13,717,514	\$ 13,742,693

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 10 INCOME TAXES

MCA is subject to income taxes on its unrelated business income tax activities, which consist of advertising in its two monthly publications and job placement fees generated from its career center website. Income tax expense was \$-0- for the years ended December 31, 2017 and 2016.

NOTE 11 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 2018. In the event of cancellation, MCA may be liable for certain amounts, depending on when cancellation occurs. As of December 31, 2017, the maximum contingency for liquidated damages is approximately \$30,000.

**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, 2017 and 2016, and have issued our report thereon dated June 7, 2018, 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

Arlington, Virginia
June 7, 2018

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	Consolidating Information			Consolidated
	MCA	MCAF	Eliminations	Total
CURRENT ASSETS				
Cash	\$ 450,875	\$ 569,557	\$ -	\$ 1,020,432
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2017	472,398	-	(179,584)	292,814
Contributions Receivable	-	40,002	-	40,002
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2017	1,708,833	-	-	1,708,833
Prepaid Expenses and Deposits	390,651	105,177	-	495,828
Total Current Assets	3,022,757	714,736	(179,584)	3,557,909
INVESTMENTS	10,003,261	100,107	-	10,103,368
PROPERTY AND EQUIPMENT				
Land	106,000	-	-	106,000
Building and Building Improvements	8,740,945	-	-	8,740,945
Furniture, Software, Equipment, and Vehicles	2,073,955	52,976	-	2,126,931
Total	10,920,900	52,976	-	10,973,876
Less: Accumulated Depreciation	7,538,343	40,718	-	7,579,061
Total Property and Equipment	3,382,557	12,258	-	3,394,815
Other Assets	40,000	-	-	40,000
Total Assets	\$ 16,448,575	\$ 827,101	\$ (179,584)	\$ 17,096,092
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 702,372	\$ 187,853	\$ (179,584)	\$ 710,641
Capital Lease Obligations	23,933	-	-	23,933
Deferred Revenue				
Subscriptions	909,916	-	-	909,916
Other	17,960	30,014	-	47,974
Total Deferred Revenue	927,876	30,014	-	957,890
Total Current Liabilities	1,654,181	217,867	(179,584)	1,692,464
NOTE PAYABLE, NET OF CURRENT PORTION	-	-	-	-
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	31,629	-	-	31,629
DEFERRED SUBSCRIPTIONS REVENUE, NET OF CURRENT PORTION	2,038,099	-	-	2,038,099
Total Liabilities	3,723,909	217,867	(179,584)	3,762,192
NET ASSETS				
Unrestricted	12,450,541	324,727	-	12,775,268
Temporarily Restricted	219,025	284,507	-	503,532
Permanently Restricted	55,100	-	-	55,100
Total Net Assets	12,724,666	609,234	-	13,333,900
Total Liabilities and Net Assets	\$ 16,448,575	\$ 827,101	\$ (179,584)	\$ 17,096,092

**MARINE CORPS ASSOCIATION
MARINE CORPS ASSOCIATION FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information			Consolidated Total
	MCA	MCAF	Eliminations	
REVENUE				
Retail Operations	\$ 7,564,168	\$ -	\$ -	\$ 7,564,168
Publications and Membership	2,627,106	-	-	2,627,106
Group Benefit Programs - Health and Life Insurance	135,981	-	-	135,981
Interest, Dividends, and Realized Gain (Loss)	525,836	(1,339)	-	524,497
Royalties	57,714	-	-	57,714
Sponsorships	615,655	46,451	-	662,106
Contributions	-	1,446,246	(75,000)	1,371,246
Other	555,907	24,098	-	580,005
Net Assets Released from Restrictions - Awards	152,125	343,603	-	495,728
Total Revenue	<u>12,234,492</u>	<u>1,859,059</u>	<u>(75,000)</u>	<u>14,018,551</u>
EXPENSES				
Retail Operations	6,873,158	-	-	6,873,158
Publications and Membership	1,798,671	-	-	1,798,671
Professional Development	242,285	582,424	-	824,709
Awards and Other	291,706	401,112	-	692,818
Administrative and Other	3,045,360	112,611	(75,000)	3,082,971
Fundraising	-	445,187	-	445,187
Total Expenses	<u>12,251,180</u>	<u>1,541,334</u>	<u>(75,000)</u>	<u>13,717,514</u>
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED GAIN (LOSS) ON INVESTMENTS	(16,688)	317,725	-	301,037
Unrealized Gain (Loss) on Investments	<u>645,135</u>	<u>(1,099)</u>	<u>-</u>	<u>644,036</u>
CHANGE IN UNRESTRICTED NET ASSETS	628,447	316,626	-	945,073
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	193,300	293,698	-	486,998
Interest, Dividends and Realized Gains	-	6,983	-	6,983
Net Assets Released from Restrictions - Awards	<u>(152,125)</u>	<u>(343,603)</u>	<u>-</u>	<u>(495,728)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>41,175</u>	<u>(42,922)</u>	<u>-</u>	<u>(1,747)</u>
CHANGE IN NET ASSETS	669,622	273,704	-	943,326
Net Assets - Beginning of Year	<u>12,055,044</u>	<u>335,530</u>	<u>-</u>	<u>12,390,574</u>
NET ASSETS - END OF YEAR	<u>\$ 12,724,666</u>	<u>\$ 609,234</u>	<u>\$ -</u>	<u>\$ 13,333,900</u>