

**MARINE CORPS ASSOCIATION  
AND  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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



## 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, 2018 and 2017, 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, 2018 and 2017, 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, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Arlington, Virginia  
July 19, 2019

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 791,485	\$ 1,020,432
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2018 and 2017	259,888	292,814
Contributions Receivable	38,668	40,002
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2018 and 2017	2,117,563	1,708,833
Prepaid Expenses and Deposits	242,064	495,828
Total Current Assets	3,449,668	3,557,909
<b>INVESTMENTS</b>	9,176,317	10,103,368
<b>PROPERTY AND EQUIPMENT</b>		
Land	106,000	106,000
Building and Building Improvements	8,694,211	8,740,945
Furniture, Software, Equipment, and Vehicles	2,169,764	2,126,931
Total	10,969,975	10,973,876
Less: Accumulated Depreciation	7,694,005	7,579,061
Total Property and Equipment	3,275,970	3,394,815
<b>OTHER ASSETS</b>	40,000	40,000
Total Assets	\$ 15,941,955	\$ 17,096,092
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 845,188	\$ 710,641
Capital Lease Obligations	24,911	23,933
Deferred Revenue:		
Subscriptions	1,219,634	909,916
Other	61,078	47,974
Total Deferred Revenue	1,280,712	957,890
Total Current Liabilities	2,150,811	1,692,464
<b>CAPITAL LEASE OBLIGATIONS, Net of Current Portion</b>	6,718	31,629
<b>DEFERRED SUBSCRIPTIONS REVENUE, Net of Current Portion</b>	1,644,489	2,038,099
Total Liabilities	3,802,018	3,762,192
<b>NET ASSETS</b>		
Without Donor Restrictions	11,632,410	12,775,268
With Donor Restrictions:		
Time or Purpose Restrictions	452,427	503,532
Perpetual in Nature	55,100	55,100
Total Net Assets	12,139,937	13,333,900
Total Liabilities and Net Assets	\$ 15,941,955	\$ 17,096,092

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>REVENUE</b>		
Retail Operations	\$ 7,527,179	\$ 7,564,168
Publications and Membership	2,602,941	2,627,106
Group Benefit Programs - Health and Life Insurance	113,873	135,981
Interest, Dividends, and Realized Gains	418,419	458,857
Royalties	54,628	57,714
Sponsorships	752,876	662,106
Contributions	1,213,976	1,371,246
Other	616,126	580,005
Net Assets Released from Restrictions - Awards	480,254	495,728
Total Revenue	13,780,272	13,952,911
<b>EXPENSES</b>		
Retail Operations	6,693,244	6,873,158
Publications and Membership	1,771,732	1,798,671
Professional Development	703,600	824,709
Awards and Other	915,715	692,818
Management and General	3,243,306	3,017,331
Fundraising	477,186	445,187
Total Expenses	13,804,783	13,651,874
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE UNREALIZED (LOSS) GAIN ON INVESTMENTS</b>	(24,511)	301,037
Unrealized (Loss) Gain on Investments	(1,118,347)	644,036
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(1,142,858)	945,073
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	424,859	486,998
Interest, Dividends, and Realized Gains	4,290	6,983
Net Assets Released from Restrictions - Awards	(480,254)	(495,728)
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	(51,105)	(1,747)
<b>CHANGE IN NET ASSETS</b>	(1,193,963)	943,326
Net Assets - Beginning of Year	13,333,900	12,390,574
<b>NET ASSETS - END OF YEAR</b>	\$ 12,139,937	\$ 13,333,900

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (1,193,963)	\$ 943,326
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	360,317	347,580
Unrealized Loss (Gain) on Investments	1,118,347	(644,036)
Realized Gain on Sales of Investments	(242,483)	(309,720)
Loss on Sale of Equipment	-	3,890
Change in Assets and Liabilities:		
Accounts Receivable	32,926	(159,475)
Contributions Receivable	1,334	(21,733)
Inventory	(408,730)	104,213
Prepaid Expenses and Deposits	253,764	(242,622)
Accounts Payable and Accrued Expenses	134,547	(118,771)
Deferred Revenue	(70,788)	32,847
Net Cash Used by Operating Activities	(14,729)	(64,501)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(3,029,563)	(6,185,728)
Sales and Maturities of Investments	3,080,750	6,497,875
Purchases of Property and Equipment	(241,472)	(63,378)
Net Cash (Used) Provided by Investing Activities	(190,285)	248,769
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Note Payable and Capital Lease Obligations	(23,933)	(23,027)
<b>NET (DECREASE) INCREASE IN CASH</b>	(228,947)	161,241
Cash - Beginning of Year	1,020,432	859,191
<b>CASH - END OF YEAR</b>	\$ 791,485	\$ 1,020,432
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 1,558	\$ 2,343

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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 88 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, 2018 AND 2017**

**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 7,100 Excellence Awards and 30 Writing Awards given to Marines in 2018, 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 2018, 95 forums served over 7,000 Marine leaders. Grants are also provided to commanders to establish and sustain 142 professional libraries. Over 38,500 Marines were served in 2018 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, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 AND 2017**

**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 \$486,300 and \$487,600, for the years ended December 31, 2018 and 2017, 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 \$91,000 and \$183,000 for the years ended December 31, 2018 and 2017, 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, 2018 AND 2017**

**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, 2018 and 2017.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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.

**New Accounting Pronouncements**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organizations have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the previously reported change in net assets.

**Subsequent Events**

In preparing these financial statements, MCA and MCAF have evaluated events and transactions for potential recognition or disclosure through July 19, 2019, the date the consolidated financial statements were available to be issued.

**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:

	2018	2017
Cash and Cash Equivalents	\$ 339,058	\$ 516,900
Accounts Receivable	259,888	292,814
Investments	9,121,217	10,048,268
Contributions Receivable	38,668	40,002
Total	<u>\$ 9,758,831</u>	<u>\$ 10,897,984</u>

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 2 LIQUIDITY AND AVAILABILITY (CONTINUED)**

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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 287,843	\$ 287,843	\$ 8,353	\$ 8,898
Money Market	274,378	274,378	1,152,411	1,152,411
Mutual Funds - Equities	3,102,828	2,878,685	2,332,524	2,716,493
ETF - Equities	354,978	308,616	431,098	466,160
Common Stock	1,479,427	1,612,052	1,509,879	1,904,787
Mutual Funds - Fixed Income	920,088	849,125	920,088	905,347
ETF - Fixed Income	112,856	112,754	91,233	91,209
Corporate Bonds	2,939,895	2,852,864	2,835,411	2,858,063
Total	<u>\$ 9,472,293</u>	<u>\$ 9,176,317</u>	<u>\$ 9,280,997</u>	<u>\$ 10,103,368</u>

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017:

	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>

  

	2017			Total
	Level 1	Level 2	Level 3	
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>

Return on investments consists of the following at December 31:

	2018	2017
Interest and Dividends, Net of Fees	\$ 180,226	\$ 156,120
Realized Gain	242,483	309,720
Total	422,709	465,840
Unrealized (Loss) Gain	(1,118,347)	644,036
Total	<u>\$ (695,638)</u>	<u>\$ 1,109,876</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, 2018, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$64,558, respectively. As of December 31, 2017, the cost of the capitalized equipment and the related accumulated amortization totaled \$96,187 and \$40,625, respectively. Imputed interest rates ranging from 3.0% to 13.9% are being amortized over the lease terms.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 5 CAPITAL LEASES (CONTINUED)**

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 26,355
2020	7,014
Total Minimum Lease Payments	33,369
Less: Amount Representing Interest	(1,740)
Present Value of Minimum Lease Payments	31,629
Less: Current Maturities	(24,911)
Noncurrent Portion of Obligations Under Capital Lease	<u>\$ 6,718</u>

**NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Commanders' Forum Program	\$ 8,500	\$ 8,618
Marine Excellence Awards Program	86,065	96,794
Marine Writing Awards Program	64,657	26,621
Wounded Marine Support Program	89,671	157,659
Events	199,684	193,800
Commander's Unit Library	3,850	20,040
Total	<u>\$ 452,427</u>	<u>\$ 503,532</u>

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:

	<u>2018</u>	<u>2017</u>
Time and Purpose Restriction	<u>\$ 480,254</u>	<u>\$ 495,728</u>

**NOTE 7 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, 2018 AND 2017**

**NOTE 7 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, 2018 and 2017, 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, 2018 and 2017:

	2018	2017
Yeckel OCS Award	\$ 10,000	\$ 10,000
Schulze Essay Award	25,100	25,100
Parry Writing Award	20,000	20,000
Total	\$ 55,100	\$ 55,100

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, 2018, 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, 2018 AND 2017**

**NOTE 8 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>
2019	\$ 81,600
2020	21,600
2021	21,600
	<u>\$ 124,800</u>

**NOTE 9 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, 2018 and 2017, royalties totaled \$56,739 and \$55,412, 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, 2018 and 2017, royalty fees totaled \$57,134 and \$57,044, respectively.

MCA also received dividends of \$-0- and \$23,525 from the insurance carriers for the years ended December 31, 2018 and 2017, respectively, as a result of the plans' claims experience being lower than anticipated.

**NOTE 10 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, 2018 and 2017, totaled \$152,816 and \$137,813, respectively.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 11 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, 2018 and 2017:

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	1,116,494	5,385	227,553	1,349,432
Cost of Goods Sold	4,341,439	717,443	-	-	5,058,882	-	-	5,058,882
Professional Services	-	-	-	-	-	72,191	36,016	108,207
Office and Occupancy	842,771	174,708	61,328	66,123	1,144,930	279,036	1,078,715	2,502,681
Depreciation	121,931	31,516	10,593	4,946	168,986	3,279	188,052	360,317
<b>Total Expenses</b>	<b>\$ 6,693,244</b>	<b>\$ 1,771,732</b>	<b>\$ 703,600</b>	<b>\$ 915,715</b>	<b>\$ 10,084,291</b>	<b>\$ 477,186</b>	<b>\$ 3,243,306</b>	<b>\$ 13,804,783</b>

  

2017	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	\$ 1,317,555	\$ 817,881	\$ 194,630	\$ 267,679	\$ 2,597,745	\$ 104,925	\$ 1,917,990	\$ 4,620,660
Direct Expenses	197,114	21,435	582,424	401,112	1,202,085	-	277,155	1,479,240
Cost of Goods Sold	4,341,742	743,036	-	-	5,084,778	-	33,910	5,118,688
Professional Services	-	-	-	-	-	66,150	-	66,150
Office and Occupancy	891,489	179,990	36,091	19,081	1,126,651	262,890	630,015	2,019,556
Depreciation	125,258	36,329	11,564	4,946	178,097	11,222	158,261	347,580
<b>Total Expenses</b>	<b>\$ 6,873,158</b>	<b>\$ 1,798,671</b>	<b>\$ 824,709</b>	<b>\$ 692,818</b>	<b>\$ 10,189,356</b>	<b>\$ 445,187</b>	<b>\$ 3,017,331</b>	<b>\$ 13,651,874</b>

**NOTE 12 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, 2018 and 2017.

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 13 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 2019. In the event of cancellation, MCA may be liable for certain amounts, depending on when cancellation occurs. As of December 31, 2018, the maximum contingency for liquidated damages is approximately \$180,000.



## 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, 2018 and 2017, and have issued our report thereon dated July 19, 2019, 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  
July 19, 2019

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2018  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

ASSETS	Consolidating Information			Consolidated
	MCA	MCAF	Eliminations	Total
<b>CURRENT ASSETS</b>				
Cash	\$ 546,466	\$ 245,019	\$ -	\$ 791,485
Accounts Receivable, Net of Allowance for Bad Debt of \$20,000 at December 31, 2018	285,358	-	(25,470)	259,888
Contributions Receivable	-	38,668	-	38,668
Inventory, Net of Allowance for Obsolete Inventory of \$60,000 at December 31, 2018	2,117,563	-	-	2,117,563
Prepaid Expenses and Deposits	162,042	80,022	-	242,064
Total Current Assets	<u>3,111,429</u>	<u>363,709</u>	<u>(25,470)</u>	<u>3,449,668</u>
<b>INVESTMENTS</b>	8,879,387	296,930	-	9,176,317
<b>PROPERTY AND EQUIPMENT</b>				
Land	106,000	-	-	106,000
Building and Building Improvements	8,694,211	-	-	8,694,211
Furniture, Software, Equipment, and Vehicles	2,116,788	52,976	-	2,169,764
Total	<u>10,916,999</u>	<u>52,976</u>	<u>-</u>	<u>10,969,975</u>
Less: Accumulated Depreciation	7,644,513	49,492	-	7,694,005
Total Property and Equipment	<u>3,272,486</u>	<u>3,484</u>	<u>-</u>	<u>3,275,970</u>
<b>OTHER ASSETS</b>	40,000	-	-	40,000
Total Assets	<u>\$ 15,303,302</u>	<u>\$ 664,123</u>	<u>\$ (25,470)</u>	<u>\$ 15,941,955</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 830,685	\$ 39,973	\$ (25,470)	\$ 845,188
Capital Lease Obligations	24,911	-	-	24,911
Deferred Revenue:				
Subscriptions	1,219,634	-	-	1,219,634
Other	26,357	34,721	-	61,078
Total Deferred Revenue	<u>1,245,991</u>	<u>34,721</u>	<u>-</u>	<u>1,280,712</u>
Total Current Liabilities	2,101,587	74,694	(25,470)	2,150,811
<b>CAPITAL LEASE OBLIGATIONS, Net of Current Portion</b>	6,718	-	-	6,718
<b>DEFERRED SUBSCRIPTIONS REVENUE, Net of Current Portion</b>	<u>1,644,489</u>	<u>-</u>	<u>-</u>	<u>1,644,489</u>
Total Liabilities	3,752,794	74,694	(25,470)	3,802,018
<b>NET ASSETS</b>				
Without Donor Restrictions	11,270,529	361,881	-	11,632,410
With Donor Restrictions:				
Time or Purpose Restrictions	224,879	227,548	-	452,427
Perpetual in Nature	55,100	-	-	55,100
Total Net Assets	<u>11,550,508</u>	<u>589,429</u>	<u>-</u>	<u>12,139,937</u>
Total Liabilities and Net Assets	<u>\$ 15,303,302</u>	<u>\$ 664,123</u>	<u>\$ (25,470)</u>	<u>\$ 15,941,955</u>

**MARINE CORPS ASSOCIATION  
MARINE CORPS ASSOCIATION FOUNDATION  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information			Consolidated Total
	MCA	MCAF	Eliminations	
<b>REVENUE</b>				
Retail Operations	\$ 7,527,179	\$ -	\$ -	\$ 7,527,179
Publications and Membership	2,602,941	-	-	2,602,941
Group Benefit Programs - Health and Life Insurance	113,873	-	-	113,873
Interest, Dividends, and Realized Gain (Loss), Net of Fees	419,758	(1,339)	-	418,419
Royalties	54,628	-	-	54,628
Sponsorships	721,276	31,600	-	752,876
Contributions	3,830	1,335,146	(125,000)	1,213,976
Other	614,636	1,490	-	616,126
Net Assets Released from Restrictions - Awards	200,330	279,924	-	480,254
Total Revenue	<u>12,258,451</u>	<u>1,646,821</u>	<u>(125,000)</u>	<u>13,780,272</u>
<b>EXPENSES</b>				
Retail Operations	6,693,244	-	-	6,693,244
Publications and Membership	1,771,732	-	-	1,771,732
Professional Development	292,099	411,501	-	703,600
Awards and Other	325,596	590,119	-	915,715
Management and General	3,243,382	124,924	(125,000)	3,243,306
Fundraising	-	477,186	-	477,186
Total Expenses	<u>12,326,053</u>	<u>1,603,730</u>	<u>(125,000)</u>	<u>13,804,783</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE UNREALIZED LOSS ON INVESTMENTS</b>	(67,602)	43,091	-	(24,511)
Unrealized Loss on Investments	<u>(1,112,410)</u>	<u>(5,937)</u>	<u>-</u>	<u>(1,118,347)</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(1,180,012)	37,154	-	(1,142,858)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Contributions	206,184	218,675	-	424,859
Interest, Dividends and Realized Gains	-	4,290	-	4,290
Net Assets Released from Restrictions - Awards	<u>(200,330)</u>	<u>(279,924)</u>	<u>-</u>	<u>(480,254)</u>
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	5,854	(56,959)	-	(51,105)
<b>CHANGE IN NET ASSETS</b>	(1,174,158)	(19,805)	-	(1,193,963)
Net Assets - Beginning of Year	<u>12,724,666</u>	<u>609,234</u>	<u>-</u>	<u>13,333,900</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 11,550,508</u>	<u>\$ 589,429</u>	<u>\$ -</u>	<u>\$ 12,139,937</u>