



Marine Corps Heritage Foundation

Audited Consolidated Financial Statements

*Years ended December 31, 2011 and 2010
with Report of Independent Auditors*

Marine Corps Heritage Foundation
Audited Consolidated Financial Statements
Years ended December 31, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows.....	4
Notes to Consolidated Financial Statements.....	5 – 16
Other Financial Information	
Consolidating Statement of Financial Position.....	17
Consolidating Statement of Activities	18
Consolidated Statements of Functional Expense (with summarized amounts for 2010)	19

Report of Independent Auditors

Board of Directors
Marine Corps Heritage Foundation
Quantico, Virginia

We have audited the accompanying consolidated statements of financial position of the Marine Corps Heritage Foundation ("the Foundation") as of December 31, 2011 and 2010 and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Marine Corps Heritage Foundation at December 31, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying other financial information on pages 17 – 19 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and related 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.

Johnson Lambert & Co. LLP

Falls Church, Virginia
April 11, 2012

Marine Corps Heritage Foundation

Consolidated Statements of Financial Position

	December 31,	
	2011	2010
Assets		
Cash and cash equivalents	\$ 4,112,527	\$ 3,305,366
Investments	8,278,165	6,697,462
Pledges receivable, net	7,280,902	10,189,915
Grants receivable	-	1,429,826
Accounts receivable	395,652	104,682
Inventory	529,183	563,696
Construction in progress	1,244,276	4,123,932
Heritage Center	74,268,029	70,285,646
Fixed assets, net	974,010	999,641
Prepaid expenses	124,391	79,005
Cash surrender value of life insurance policy	84,602	72,447
Retirement plan assets	117,085	88,593
Deposits	9,189	9,189
Total assets	\$ 97,418,011	\$ 97,949,400
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,052,523	\$ 1,283,613
Notes payable	1,000,000	4,304,425
Line of credit payable	-	700,000
Annuity payable	10,294	11,434
Agency funds	123,159	127,478
Retirement plan liability	117,085	88,593
Total liabilities	2,303,061	6,515,543
Net assets:		
Unrestricted net assets	10,989,709	8,873,062
Temporarily restricted net assets	83,588,310	82,028,864
Permanently restricted net assets	536,931	531,931
Total net assets	95,114,950	91,433,857
Total liabilities and net assets	\$ 97,418,011	\$ 97,949,400

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation

Consolidated Statements of Activities

	Year ended December 31,	
	2011	2010
Change in unrestricted net assets:		
Revenue, gains and other support		
Net sales	\$ 2,690,563	\$ 2,616,762
Less: cost of sales	(1,176,513)	(1,188,425)
Total gross profit on sales	1,514,050	1,428,337
Contributions	5,495,598	4,141,945
Special events	366,639	523,223
Program revenue	106,000	112,851
Other income	99,205	118,304
Interest and dividends	150,080	130,225
Net assets released from restrictions	3,199,492	4,275,057
Total revenue, gains and other support	10,931,064	10,729,942
Expenses		
Program services	4,268,788	4,462,828
Fundraising	2,403,227	2,296,063
General and administrative	1,943,606	1,487,335
Total expenses	8,615,621	8,246,226
Change in unrestricted net assets, before change in fair value of investments	2,315,443	2,483,716
Change in fair value of investments	(198,796)	77,495
Change in unrestricted net assets	2,116,647	2,561,211
Change in temporarily restricted net assets:		
Contributions	4,671,498	6,377,333
Grant activity	(6,301)	2,430,327
Change in fair value of investments	52,246	205,355
Interest and dividends	41,495	43,490
Net assets released from restrictions	(3,199,492)	(4,275,057)
Change in temporarily restricted net assets	1,559,446	4,781,448
Change in permanently restricted net assets:		
Contributions	5,000	100,000
Change in permanently restricted net assets	5,000	100,000
Change in net assets	3,681,093	7,442,659
Net assets, beginning of year	91,433,857	83,991,198
Net assets, end of year	\$ 95,114,950	\$ 91,433,857

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation
Consolidated Statements of Cash Flows

	Year ended December 31,	
	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 3,681,093	\$ 7,442,659
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	295,065	224,045
Change in fair value of investments	146,550	(282,850)
Change in pledges allowance and discount	668,353	(83,183)
Change in agency fund investments	4,319	(12,222)
Donated marketable securities	(174,402)	(184,735)
Loss on disposal of fixed assets	215	10,890
Changes in operating assets and liabilities:		
Pledges receivable	2,240,660	1,246,033
Grants receivable	1,429,826	(1,429,826)
Accounts receivable	(290,970)	4,958
Inventory	34,513	29,973
Prepaid expenses	(45,386)	(53,432)
Deposits	-	3,200
Retirement plan assets	(28,492)	(36,468)
Accounts payable and accrued expenses	(150,401)	(23,952)
Deferred revenue	(80,689)	64,601
Retirement plan liability	28,492	36,468
Annuity payable	(1,140)	4,729
Net cash provided by operating activities	7,757,606	6,960,888
Cash flows from investing activities		
Additions to construction in progress	-	(2,999,679)
Transfer from construction in progress to the Heritage Center	2,879,656	-
Purchases of investments	(4,755,889)	(1,437,904)
Proceeds from sales of investments	3,186,564	1,169,284
(Additions) adjustments to the Heritage Center	(3,982,383)	76,483
Purchases of fixed assets	(269,649)	(449,150)
Contributions and investment income restricted for the Heritage Center	(3,392,615)	(6,179,407)
Net cash used in investing activities	(6,334,316)	(9,820,373)
Cash flows from financing activities		
Contributions and investment income restricted for the Heritage Center	3,392,615	6,179,407
Principal payments on note payable	(3,304,425)	(2,625,000)
(Payments) proceeds from bank line of credit	(700,000)	700,000
Agency funds	(4,319)	12,222
Net cash (used in) provided by financing activities	(616,129)	4,266,629
Change in cash and cash equivalents	807,161	1,407,144
Cash and cash equivalents, beginning of year	3,305,366	1,898,222
Cash and cash equivalents, end of year	\$ 4,112,527	\$ 3,305,366

See accompanying notes to the consolidated financial statements.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

Note A – Organization and Summary of Significant Accounting Policies

The Marine Corps Heritage Foundation (“the Foundation”) was established to preserve and promulgate the history, traditions and culture of the Marine Corps and educate all Americans in its virtues. In 2001, the Foundation commenced raising funds to build the Heritage Center and National Museum of the Marine Corps (“the Museum”) located in Quantico, Virginia. Ground was broken on Phase I construction in the spring of 2004 and the Museum opened in November 2006. In addition to the Museum, the Foundation has also constructed a chapel, playground, roadway and walking pathways. The Foundation will deed the Museum to the Marine Corps when no financial obligation remains with regard to construction. In 2011, the Foundation initiated a second capital campaign to complete the Museum.

The consolidated financial statements include the assets, liabilities and activities of the Heritage Center LLC (“the LLC”). Intercompany transactions and balances have been eliminated in consolidation.

The Foundation registered as a non-profit organization in the Commonwealth of Virginia in 2008. Prior to 2008, the Foundation was registered in the District of Columbia. The LLC was incorporated in Virginia on June 5, 2006 as a single member LLC, with the Foundation as the member. The LLC’s operating agreement with the Foundation authorizes the LLC to operate revenue producing units in the Museum, which include the Museum Store and other interactive venues. The LLC may distribute funds that were generated at the Museum to the Foundation to support the continued development of the Heritage Center and other Foundation programs. During 2011, a \$200,000 distribution was made from the LLC to the Foundation. There were no distributions made in 2010.

In addition to the store, the Foundation also provides internships and fellowships for Marine Corps historical projects, sponsors award competitions, and provides program support to the History Division of Marine Corps University and the Museum.

The following is a summary of significant accounting policies followed in the preparation of these financial statements:

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities using three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note A – Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") promulgated by the Financial Accounting Standards Board Accounting Standards Codification ("ASC" or "the guidance"). Accordingly, revenue is recognized when earned and expenses when the obligation is incurred.

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Subsequent Events

The Foundation has performed an evaluation of subsequent events through April 11, 2012, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the consolidated financial statements and footnotes.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. The Foundation is required to pay federal and state income taxes only on unrelated business income. The LLC is a disregarded entity, and will be consolidated into the Foundation for tax reporting purposes. Management has concluded that the Foundation has maintained its tax exempt status and that there are no uncertain tax positions at December 31, 2011. The three previous tax years are subject to examination by federal and state authorities; there are currently no examinations being conducted.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include only demand deposits and savings accounts. Certificates of deposit and other short-term, highly liquid investments purchased for its portfolio are treated as investments rather than cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures amounts on deposit with each financial institution up to limits prescribed by law. The Foundation may hold funds with financial institutions in excess of the FDIC insured amounts; however, the Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note A – Organization and Summary of Significant Accounting Policies (Continued)

Inventory

Inventories are stated at lower of cost or market, with cost determined on a first-in, first-out basis. The value of manufacturer's consigned inventory is offset by a liability which is included in accounts payable.

Shipping and handling costs are included in inventory and cost of sales when merchandise is sold. Shipping and handling costs of \$52,839 and \$56,385 were included in customer product orders and recorded against sales revenue as of December 31, 2011 and 2010, respectively.

Investments and Fair Value Measurement

Investments are recorded at fair value, with gains and losses included in the consolidated statements of activities. The change in fair value of investments reflected in the accompanying consolidated statements of activities include those realized upon sales and unrealized resulting from fluctuations in market values of investments. Gains and losses realized upon sales are calculated using the average cost method. Within the investment accounts, the Foundation maintains a cash balance for future investment purchases.

In accordance with GAAP, the Foundation prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the hierarchy are as follows:

Level 1- Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2- Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Foundation recognizes transfers between levels at the end of the reporting period.

Risks and Uncertainties

The Foundation invests in various securities. These securities are exposed to a variety of risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amount reported in the consolidated statements of financial position.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note A – Organization and Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The carrying amounts including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and current maturities of long-term borrowings approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates on these instruments fluctuate with market interest rates offered to the Foundation for debt with similar terms and maturities.

Fixed Assets

Furniture and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated life of 3-10 years. Expenditures for maintenance and repairs are expensed as incurred; betterments which increase the value or materially extend the life of the related assets are capitalized.

Construction in Progress

Costs associated with phase II have been capitalized and are included as construction in progress on the consolidated statements of financial position. Projects that are currently included in construction in progress include the future expansion of the National Museum of the Marine Corps and Heritage Center Parkway.

Restricted Net Assets

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions

Contributions and pledges are recorded when the donor makes a contribution or promise to give to the Foundation that is, in substance, unconditional.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note B – Pledges Receivable

Pledges receivable consist of the following at December 31:

Amounts due in:	2011	2010
Less than one year	\$ 2,425,796	\$ 2,922,776
One to five years	5,511,085	6,689,289
More than five years	587,490	1,162,275
Total pledges	8,524,371	10,774,340
Less allowance and discount	(1,243,469)	(584,425)
Pledges net of allowance and discount	\$ 7,280,902	\$ 10,189,915

Pledges receivable that are due beyond one year are carried at the estimated present value of the future receipts and have been discounted using rates which range from .18% to 4.94%. As of December 31, 2011, the Foundation received a commitment for \$10,000,000 of which, \$3,000,000 has been received. The remaining \$7,000,000 is subject to certain conditions and will be recognized in the consolidated statements of activities and the consolidated statements of financial position when conditions have been met.

In 2010, the Foundation received an interest in a trust that will provide \$500,000 to the Foundation. The amount has been discounted to its current present value and is recorded in pledge receivables on the consolidated statements of financial position.

Note C – Investments and Fair Value Measurements

The Foundation's total return on investments for the years ended December 31 is comprised of the following:

	2011	2010
Realized gains (losses)	\$ 70,921	\$ (16,139)
Unrealized (losses) gains	(217,471)	298,989
Change in fair value of investments	(146,550)	282,850
Interest and dividends	191,575	173,715
Investment advisory fees	(29,773)	(36,017)
Total investment return	\$ 15,252	\$ 420,548

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

The following table is a summary of the Foundation’s investments measured at fair value within the GAAP fair value hierarchy at December 31, 2011:

Class of Security	Level 1	Level 3	Total
Mutual funds:			
International	\$ 824,488	\$ -	\$ 824,488
Fixed income	623,571	-	623,571
Value	401,329	-	401,329
Growth	484,772	-	484,772
Emerging markets	204,716	-	204,716
Other	187,390	-	187,390
Hedge fund	-	268,004	268,004
Beneficial interest held by a third party	-	1,675,045	1,675,045
Total investments at fair value	<u>\$ 2,726,266</u>	<u>\$ 1,943,049</u>	4,669,315
Cash equivalents			<u>3,608,850</u>
Total investments			<u>\$ 8,278,165</u>

There were no transfers between levels of the fair value hierarchy in 2011.

The following table is a summary of the Foundation’s investments measured at fair value within the GAAP fair value hierarchy at December 31, 2010:

Class of Security	Level 1	Level 3	Total
Mutual funds:			
International	\$ 779,678	\$ -	\$ 779,678
Fixed income	602,581	-	602,581
Value	506,714	-	506,714
Growth	437,123	-	437,123
Emerging markets	149,823	-	149,823
Other	175,622	-	175,622
Hedge fund	-	249,891	249,891
Beneficial interest held by a third party	-	1,580,231	1,580,231
Total investments at fair value	<u>\$ 2,651,541</u>	<u>\$ 1,830,122</u>	4,481,663
Cash equivalents			<u>2,215,799</u>
Total investments			<u>\$ 6,697,462</u>

There were no transfers between levels of the fair value hierarchy in 2010.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

Retirement plan assets totaling \$117,085 and \$88,593 at December 31, 2011 and 2010, respectively, consist of mutual funds and equity securities which are classified as Level 1 securities in accordance with the GAAP fair value hierarchy.

The changes in Level 3 investments at fair value for the year ended December 31, 2011 are summarized as follows:

	Hedge fund	Interest held by third party	Total
Beginning balance	\$ 249,891	\$ 1,580,231	\$ 1,830,122
Purchases, issuance and settlements	22,135	-	22,135
Net investment gain for 2011	(4,022)	94,814	90,792
Ending balance	<u>\$ 268,004</u>	<u>\$ 1,675,045</u>	<u>\$ 1,943,049</u>

The changes in Level 3 investments at fair value for the year ended December 31, 2010 are summarized as follows:

	Hedge fund	Interest held by third party	Total
Beginning balance	\$ 234,086	\$ 1,490,784	\$ 1,724,870
Purchases, issuance and settlements	9,240	-	9,240
Net investment gain for 2010	6,565	89,447	96,012
Ending balance	<u>\$ 249,891</u>	<u>\$ 1,580,231</u>	<u>\$ 1,830,122</u>

Estimated fair values of assets classified as Level 3 in 2011 and 2010 are derived from inputs to the valuation methodology that are unobservable for the assets and are based on actuarial assumptions, such as mortality rates and the applicable federal rate for charitable gifts.

Note D – Fixed Assets

Fixed assets of the Foundation consist of the following at December 31:

	2011	2010
Equipment and software	\$ 1,200,028	\$ 947,005
Office building	278,170	278,170
Furniture and fixtures	106,104	101,740
Leasehold improvements	89,227	89,227
Vehicles	20,636	20,636
	<u>1,694,165</u>	<u>1,436,778</u>
Accumulated depreciation	(720,155)	(437,137)
Fixed assets, net	<u>\$ 974,010</u>	<u>\$ 999,641</u>

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note D – Fixed Assets (Continued)

As of December 31, 2011 and 2010, the Foundation disposed of \$12,262 and \$83,077 in fixed assets of which \$12,047 and \$72,187 has been depreciated, respectively.

Note E – Agency Funds

The Foundation is the repository for donor-advised trust funds donated for the purpose of maintaining historical museum exhibits and offering awards to those preserving the history of women marines. These funds are included in the investments of the organization and also are shown as a liability since the Foundation functions only as an intermediary in the holding and disbursement of these funds. Investment income on these funds increases the asset and related liability, and is not included as part of investment income of the Foundation.

Agency funds in the amount of \$7,424 were recorded as temporarily restricted contributions for the year ended December 31, 2010 in accordance with the donor's request that the funds are to be used for the development of the Heritage Center. There were no agency funds being recorded as temporarily restricted contributions for the year ended December 31, 2011.

Note F – Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions. Net assets released from restriction are as follows:

	2011	2010
Expenditures for the Heritage Center	\$ 2,335,133	\$ 1,319,446
Support programs	490,844	2,814,245
Awards and fellowships programs	356,501	141,162
Monuments	17,014	204
Total assets released from restriction	<u>\$ 3,199,492</u>	<u>\$ 4,275,057</u>

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note F – Restricted Net Assets (Continued)

At December 31, temporarily restricted net assets consist of funds available for the following purposes:

	2011	2010
Heritage Center	\$ 82,547,886	\$ 81,490,405
Support programs	856,342	146,127
Awards and fellowships programs	170,116	366,324
Monuments	13,966	26,008
Total temporarily restricted assets	<u>\$ 83,588,310</u>	<u>\$ 82,028,864</u>

Temporarily restricted net assets consist of funds to support various programs of the Foundation, including awards and fellowships, educational programs, and the development of the Heritage Center.

Endowment

The amounts classified as permanently restricted net assets in the consolidated statements of financial position represent the Foundation's endowment. The Board of Directors of the Foundation has interpreted Virginia's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Endowment earnings are classified as temporarily restricted until such time that they are appropriated for use.

Investment Policy

The Foundation's endowment policy is focused on the preservation of capital and amounts are invested in equities, mutual funds, fixed income securities and money markets.

Funds with Deficiencies

As of December 31, 2011 the endowment consisted of five funds. From time to time, the fair value of assets associated with these funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of December 31, 2011 and 2010, there are no deficiencies in any of the funds that make up the endowment.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note F – Restricted Net Assets (Continued)

As required by GAAP, net assets associated with these funds are classified and reported based on the existence or absence of donor imposed restrictions. The total endowment consists of the following at December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	\$ -	\$ 173,736	\$ 531,931	\$ 705,667
Contribution	-	-	5,000	5,000
Investment income	-	8,607	-	8,607
Net realized and unrealized losses	-	(27,538)	-	(27,538)
Total investment return	-	(18,931)	-	(18,931)
Appropriation of endowment assets for expenditure	-	(3,500)	-	(3,500)
Net assets, December 31, 2011	<u>\$ -</u>	<u>\$ 151,305</u>	<u>\$ 536,931</u>	<u>\$ 688,236</u>

The total endowment fund consists of the following at December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2009	\$ -	\$ 114,458	\$ 431,931	\$ 546,389
Contribution	-	-	100,000	100,000
Investment income	-	5,944	-	5,944
Net realized and unrealized appreciation	-	53,334	-	53,334
Total investment return	-	59,278	-	59,278
Appropriation of endowment assets for expenditure	-	-	-	-
Net assets, December 31, 2010	<u>\$ -</u>	<u>\$ 173,736</u>	<u>\$ 531,931</u>	<u>\$ 705,667</u>

Note G – Notes Payable

The Foundation entered into a loan agreement with Wachovia Bank, N.A., predecessor to Wells Fargo Bank, N.A., to borrow up to \$23,000,000 for use in the construction of the National Museum of the Marine Corps. In November 2006, an agreement was signed that converted the original debt instrument into a term loan in the amount of \$15,700,000. This agreement also provided for an additional borrowing in the form of a revolving line of credit up to \$6,000,000.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note G – Notes Payable (Continued)

The term loan bears interest at the floating monthly LIBOR rate plus 1.0% and calls for principal and interest payments every May 31 and November 30 beginning in May 2007 and ending on the maturity date of November 30, 2011. Prior to the November 2011 payoff, management restructured the loan to a \$1,000,000 term loan at the floating monthly LIBOR rate plus 2%. The new loan calls for monthly interest payments and a lump sum principal repayment upon the new maturity date of November 30, 2015. Payments under the loan, including interest, are as follows:

2012	\$	22,836
2013		22,836
2014		22,836
2015		1,020,933
	\$	<u>1,089,441</u>

The Foundation also maintains a revolving line of credit with Wells Fargo Bank. The line of credit bears interest at the floating monthly LIBOR rate plus 2%. As of December 31, 2011 and 2010, the line of credit outstanding balance was \$0 and \$700,000, respectively.

During the years ended December 31, 2011 and 2010, total interest costs incurred amounted to \$48,757 and \$77,149, respectively. All interest incurred since inception has been capitalized.

Note H – Charitable Gift Annuity

The Foundation received a total of \$20,000 in prior years from donors in order to establish charitable gift annuities. The charitable gift annuity agreements require the Foundation to make quarterly payments totaling \$285 to the donors for the remainder of the individuals' lives. The annuity agreements are not transferable and terminate at the donors' deaths. The difference between the initial gifts and the calculated annuity liabilities was recorded as contributions in the years received. As of December 31, 2011 and 2010, the Foundation had an annuity liability of \$10,294 and \$11,434, respectively.

Note I – Retirement Plan

The Foundation provides a salary deferral arrangement which is qualified under Section 403(b) of the Internal Revenue Code. Employees may begin making elective contributions upon reaching age 21 and completing 90 days of service. The Foundation matches 50% of the amount deferred by participants. Pension expense for the years ended December 31, 2011 and 2010 was \$114,602 and \$95,290, respectively.

Marine Corps Heritage Foundation

Notes to Consolidated Financial Statements (Continued)

Note J – Commitments

In August 2007, the Foundation entered into a non-cancellable operating lease agreement for office space in Dumfries, Virginia, which is set to expire on December 31, 2012. Minimum future rental payments under this non-cancellable operating lease as of December 31, 2011 are \$124,104. Rent expense for the years ended December 31, 2011 and 2010 was \$148,143 and \$135,030, respectively.

Note K – Allocation of Joint Costs

The Foundation conducted activities which incurred joint costs for the distribution of direct-marketing fundraising appeals and program information. Total joint costs of \$1,809,609 included allocated amounts of \$361,922 to program services and \$1,447,687 to fundraising for the year ended December 31, 2011. Total joint costs of \$1,831,628 included allocated amounts of \$366,325 to program services and \$1,465,303 to fundraising for the year ended December 31, 2010.

Note L – In-Kind Support

The Foundation receives in-kind online advertising support through a 2009 grant award. The fair market value of these services has been included in contribution revenue and advertising expense line items in the consolidated statements of activities and amounted to \$115,990 and \$79,375 for the years ended December 31, 2011 and 2010, respectively.

In 2011, the Foundation received additional in-kind contributions totaling \$100,639 supporting Board of Directors meetings travel expenses, Heritage Center development costs, executive staff recruitment fees, and other gifts for the benefit of the National Museum of the Marine Corps. The market value of these goods and services has been included in contribution revenue and related expenses in the consolidated statements of activities and as Heritage Center assets on the consolidated statements of financial position, as appropriate.

Marine Corps Heritage Foundation

Consolidating Statement of Financial Position

	December 31, 2011			
	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Assets				
Cash and cash equivalents	\$ 3,081,069	\$ 1,031,458	\$ -	\$ 4,112,527
Investments	8,066,097	212,068	-	8,278,165
Investment in LLC	1,800,938	-	(1,800,938)	-
Pledges receivable, net	7,280,902	-	-	7,280,902
Accounts receivable	386,325	9,327	-	395,652
Inventory	-	529,183	-	529,183
Due from LLC	17,558	-	(17,558)	-
Construction in progress	1,244,276	-	-	1,244,276
Heritage Center	74,268,029	-	-	74,268,029
Fixed assets, net	687,059	286,951	-	974,010
Prepaid expenses	116,594	7,797	-	124,391
Cash surrender value of life insurance policy	84,602	-	-	84,602
Retirement plan assets	117,085	-	-	117,085
Deposits	9,189	-	-	9,189
Total assets	\$ 97,159,723	\$ 2,076,784	\$ (1,818,496)	\$ 97,418,011
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 793,175	\$ 258,288	\$ -	\$ 1,051,463
Other payable	1,060	-	-	1,060
Due to Foundation	-	17,558	(17,558)	-
Notes payable	1,000,000	-	-	1,000,000
Annuity payable	10,294	-	-	10,294
Retirement plan liability	117,085	-	-	117,085
Agency funds	123,159	-	-	123,159
Total liabilities	2,044,773	275,846	(17,558)	2,303,061
Net asset:				
Unrestricted net assets	10,989,709	1,800,938	(1,800,938)	10,989,709
Temporarily restricted net assets	83,588,310	-	-	83,588,310
Permanently restricted net assets	536,931	-	-	536,931
Total net assets	95,114,950	1,800,938	(1,800,938)	95,114,950
Total liabilities and net assets	\$ 97,159,723	\$ 2,076,784	\$ (1,818,496)	\$ 97,418,011

Marine Corps Heritage Foundation

Consolidating Statement of Activities

Year ended December 31, 2011

	Foundation	Heritage Center, LLC	Reclassifications & Eliminations	Total
Change in unrestricted net assets:				
Revenues, gains, and other support				
Net sales	\$ -	\$ 2,690,563	\$ -	\$ 2,690,563
Less: cost of sales	-	(1,176,513)	-	(1,176,513)
Total gross profit on sales	-	1,514,050	-	1,514,050
Contributions	5,395,182	100,416	-	5,495,598
Special events	100,582	266,057	-	366,639
Program revenue	-	106,000	-	106,000
Other income	18,402	80,803	-	99,205
Interest and dividends	143,567	6,513	-	150,080
Interest in the earnings of the LLC	229,712	-	(229,712)	-
Net assets released from restrictions	3,199,492	-	-	3,199,492
Total revenue, gains, and other support	9,086,937	2,073,839	(229,712)	10,931,064
Expenses				
Program services	2,772,428	1,496,360	-	4,268,788
Fundraising	2,403,227	-	-	2,403,227
General and administrative	1,795,839	147,767	-	1,943,606
Total expenses	6,971,494	1,644,127	-	8,615,621
Change in unrestricted net assets before change in fair value of investments and LLC distribution	2,115,443	429,712	(229,712)	2,315,443
Change in fair value of investments	(198,796)	-	-	(198,796)
Change in unrestricted net assets before transfers	1,916,647	429,712	(229,712)	2,116,647
LLC distribution	200,000	(200,000)	-	-
Change in unrestricted net assets	2,116,647	229,712	(229,712)	2,116,647
Change in temporarily restricted net assets:				
Contributions	4,671,498	-	-	4,671,498
Grant activity	(6,301)	-	-	(6,301)
Change in fair value of investments	52,246	-	-	52,246
Interest and dividends	41,495	-	-	41,495
Net assets released from restrictions	(3,199,492)	-	-	(3,199,492)
Change in temporarily restricted net assets	1,559,446	-	-	1,559,446
Change in permanently restricted net assets:				
Contributions	5,000	-	-	5,000
Change in permanently restricted net assets	5,000	-	-	5,000
Change in net assets	3,681,093	229,712	(229,712)	3,681,093
Net assets, beginning of year	91,433,857	1,571,226	(1,571,226)	91,433,857
Net assets, end of year	<u>\$ 95,114,950</u>	<u>\$ 1,800,938</u>	<u>\$ (1,800,938)</u>	<u>\$ 95,114,950</u>

Marine Corps Heritage Foundation

Consolidated Statement of Functional Expense (with summarized amounts for 2010)

	Year ended December 31			2011	2010
	Program services	Fundraising	General and administrative		
Accounting and auditing	\$ -	\$ -	\$ 108,287	\$ 108,287	\$ 98,383
Advertising	310,447	7,372	155,140	472,959	313,058
Awards	29,231	-	-	29,231	50,328
Bank charges	3,116	-	21,037	24,153	17,001
Catalog	21,342	-	-	21,342	24,631
Consulting	184,110	153,942	-	338,052	365,717
Credit card fees	72,110	14,660	14,660	101,430	88,637
Depreciation	166,356	-	128,709	295,065	224,045
Direct marketing	361,922	1,447,687	-	1,809,609	1,831,628
Dues and subscriptions	2,025	1,276	1,415	4,716	5,918
Facilities development	164,943	-	-	164,943	103,151
Educational support	187,664	-	-	187,664	178,527
Gifts	-	-	1,318	1,318	12,196
Insurance	16,146	-	93,872	110,018	96,423
Investment fees	-	-	29,773	29,773	36,017
Loss on disposal of assets	-	-	215	215	10,890
Maintenance	38,084	14,766	14,766	67,616	76,937
Marketing	42,096	25,515	-	67,611	62,742
Meetings	1,213	558	61,837	63,608	42,842
Museum and historical support	411,985	-	-	411,985	478,606
Museum expenses - LLC	78,980	-	-	78,980	107,094
Office expense	20,957	4,228	26,169	51,354	85,113
Postage and shipping	61,760	11,252	8,249	81,261	81,116
Printing	3,339	27,009	83	30,431	24,199
Professional fees	4,742	5,057	41,410	51,209	77,147
Rent	-	-	148,143	148,143	135,030
Research	-	17,905	-	17,905	4,265
Salaries, taxes, and benefits	1,426,538	587,431	1,054,737	3,068,706	2,528,785
Special events	465,596	-	-	465,596	792,933
Staff training	2,397	-	3,728	6,125	6,583
Taxes and licenses	22,454	24,597	3,716	50,767	29,747
Telephone and utilities	98,558	9,617	9,618	117,793	120,378
Temporary help	-	7,580	333	7,913	8,249
Travel	5,254	29,194	2,809	37,257	32,542
USMC Support	8,900	-	-	8,900	5,192
Website and internet	56,523	13,581	13,582	83,686	90,176
Total	\$ 4,268,788	\$ 2,403,227	\$ 1,943,606	\$8,615,621	\$ 8,246,226