

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marine Corps Scholarship Foundation, Inc.
Alexandria, Virginia

We have audited the accompanying statements of financial position of the Marine Corps Scholarship Foundation, Inc. (the "Foundation") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial position of the Marine Corps Scholarship Foundation, Inc. as of December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 27, 2012

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Cash Equivalents	\$ 6,599,325	\$ 7,507,863
Receivables	45,005	16,837
Accrued Interest Receivable	25,142	11,323
Prepaid Expenses	239,632	142,225
Investments	28,722,278	26,377,468
Pledges Receivable, Net of Allowance	8,044,994	5,193,221
Inventory	30,597	33,345
Deposits	12,593	3,797
Cash Surrender Value of Life Insurance Policy	15,707	12,658
Assets Held Under Charitable Trusts	2,470,411	2,694,513
Property and Equipment:		
Building and Building Improvements	620,070	620,070
Furniture and Equipment	211,781	179,747
Leasehold Improvements	307,528	-
Software and Website Development	395,287	395,287
Total Property and Equipment	1,534,666	1,195,104
Less: Accumulated Depreciation and Amortization	690,570	548,873
Net Property and Equipment	844,096	646,231
 Total Assets	 \$ 47,049,780	 \$ 42,639,481
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 471,312	\$ 363,419
Scholarships Payable	347,433	365,784
Deferred Rent	373,579	-
Deferred Florida License Plate Program Revenue	682,682	-
Obligations Under Charitable Trusts	726,747	796,313
Amounts Held for Others	401,694	393,475
Total Liabilities	3,003,447	1,918,991
NET ASSETS		
Unrestricted	2,925,561	4,731,076
Temporarily Restricted	14,424,299	14,714,674
Permanently Restricted Endowment	26,696,473	21,274,740
Total Net Assets	44,046,333	40,720,490
 Total Liabilities and Net Assets	 \$ 47,049,780	 \$ 42,639,481

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE, GAINS, AND OTHER SUPPORT								
Special Events	\$ 4,205,898	\$ 2,809,829	\$ 1,469,107	\$ 8,484,834	\$ 3,507,584	\$ 2,024,631	\$ 660,000	\$ 6,192,215
Contributions	1,518,180	1,355,803	4,050,971	6,924,954	1,446,994	2,949,302	2,073,164	6,469,460
Investment (Loss) Gain	(556,468)	(1,101,568)	-	(1,658,036)	(52,756)	3,200,597	-	3,147,841
Other Revenue - Florida License Plate Program	398,197	-	-	398,197	261,880	-	-	261,880
Other Revenue - Illinois License Plate Program	70,761	-	-	70,761	24,070	-	-	24,070
Other Revenue/Change in Values of Obligations Under Charitable Trusts	275,436	(5,349)	(98,345)	171,742	141,392	3,122	8,577	153,091
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	3,349,090	(3,349,090)	-	-	3,140,101	(3,140,101)	-	-
Total Revenue, Gains, and Other Support	<u>9,261,094</u>	<u>(290,375)</u>	<u>5,421,733</u>	<u>14,392,452</u>	<u>8,469,265</u>	<u>5,037,551</u>	<u>2,741,741</u>	<u>16,248,557</u>
EXPENSES								
Scholarships	5,632,452	-	-	5,632,452	5,442,549	-	-	5,442,549
Special Events	1,960,417	-	-	1,960,417	1,418,423	-	-	1,418,423
Total Program Expenses	<u>7,592,869</u>	<u>-</u>	<u>-</u>	<u>7,592,869</u>	<u>6,860,972</u>	<u>-</u>	<u>-</u>	<u>6,860,972</u>
General and Administrative	1,819,231	-	-	1,819,231	1,364,330	-	-	1,364,330
Fundraising	1,654,509	-	-	1,654,509	1,233,544	-	-	1,233,544
Total Expenses	<u>11,066,609</u>	<u>-</u>	<u>-</u>	<u>11,066,609</u>	<u>9,458,846</u>	<u>-</u>	<u>-</u>	<u>9,458,846</u>
CHANGE IN NET ASSETS	(1,805,515)	(290,375)	5,421,733	3,325,843	(989,581)	5,037,551	2,741,741	6,789,711
Net Assets - Beginning of Year	<u>4,731,076</u>	<u>14,714,674</u>	<u>21,274,740</u>	<u>40,720,490</u>	<u>5,720,657</u>	<u>9,677,123</u>	<u>18,532,999</u>	<u>33,930,779</u>
NET ASSETS - END OF YEAR	<u>\$ 2,925,561</u>	<u>\$ 14,424,299</u>	<u>\$ 26,696,473</u>	<u>\$ 44,046,333</u>	<u>\$ 4,731,076</u>	<u>\$ 14,714,674</u>	<u>\$ 21,274,740</u>	<u>\$ 40,720,490</u>

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 3,325,843	\$ 6,789,711
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Permanently Restricted Contributions	(5,421,733)	(2,741,741)
Depreciation	180,457	167,073
Realized Loss (Gain) on Sales of Investments	108,539	(2,356,766)
Unrealized Loss on Investments	2,192,700	6,525
Donated Stock	(377,817)	(135,779)
Donated Life Insurance Policy	(3,049)	(2,885)
Pledges Receivable	(2,851,773)	(1,273,307)
Change in Assets and Liabilities:		
Receivables	(28,168)	14,862
Accrued Interest Receivable	(13,819)	30,289
Prepaid Expenses	(97,407)	(118,533)
Inventory	2,748	(33,345)
Deposits	(8,796)	(2,664)
Accounts Payable and Accrued Expenses	107,893	134,953
Scholarships Payable	(18,351)	(188,884)
Deferred Rent	373,579	-
Deferred Florida License Plate Program Revenue	682,682	-
Amounts Held for Others	8,219	11,308
Net Cash (Used in) Provided by Operating Activities	(1,838,253)	300,817
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(24,949,871)	(39,434,324)
Proceeds from Sales of Investments	20,905,741	37,906,682
Purchases of Property and Equipment	(378,322)	(64,739)
Net Cash Used in Investing Activities	(4,422,452)	(1,592,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) Proceeds under Charitable Trusts	(69,566)	534,724
Permanently Restricted Contributions	5,421,733	2,741,741
Net Cash Provided by Financing Activities	5,352,167	3,276,465
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(908,538)	1,984,901
Cash and Cash Equivalents - Beginning of Year	7,507,863	5,522,962
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,599,325	\$ 7,507,863
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Receipt of Donated Stock	\$ 377,817	\$ 135,779

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Marine Corps Scholarship Foundation, Inc. ("Foundation") is a nonprofit corporation founded in 1962. The primary purpose of the Foundation is to provide financial assistance to children of Marines furthering their education beyond the high school level in a recognized college, vocational or technical school.

The Foundation is the parent organization to twenty unincorporated committees and two incorporated committees, which carry out special events for the Foundation with the purpose of increasing visibility of the mission and providing support to its programs. The activities of subordinate committees are included in the accompanying financial statements as they are an integral part of the Foundation.

Income Tax Status

The Foundation is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Foundation has received from IRS a favorable ruling that it is recognized as a "public charity" within the meaning of Internal Revenue Code Section 170(b)(1)(A)(vi) and thus, meets the exception to private foundation status under section 509(a)(1). The activities of the subordinate committees are covered under the Foundation's group tax exemption under Section 501(c)(3) of the Internal Revenue Code. The Foundation requested the Internal Revenue Service (IRS) to terminate its group exemption. The IRS granted this request effective December 31, 2011.

The Foundation adopted the income tax standard for uncertain income tax positions. The Foundation evaluated its tax positions and determined that its positions are more-likely-than-not to be sustained on examination. The Foundation's income tax returns are subject to review and examination by federal and state authorities. The tax returns for the fiscal years 2008 through 2010 are open to examination by federal and state authorities.

Use of Estimates

The preparation of financial statements prepared in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments with maturity dates of three months or less when purchased are considered cash equivalents. The Foundation does not consider money market funds that are part of the investments portfolio to be cash equivalents.

Receivables

The receivables are stated at their net realizable value. Receivables past due are individually analyzed for collectibility. When all collection efforts are exhausted, the receivable is written off against bad debt expense. Management estimates that all receivables are fully collectible.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in marketable securities with readily determinable fair values are stated at their fair values in the accompanying statements of financial position. The Foundation also holds positions in alternative investments that invest in hedge funds. These alternative investments are recorded at estimated fair value based on net asset value. There are inherent limitations in any valuation technique for non-readily marketable securities. Therefore, the value is not necessary indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

Pledges Receivable

Pledges are stated at their net realizable value. Pledges past due are individually analyzed for collectibility. Pledges receivable which management determines to be uncollectible are written off. Management has established an allowance of \$45,000 and \$85,000 as of December 31, 2011 and 2010, respectively, for those pledges receivable it does not believe to be collectible.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets (25 years for building and building improvements, 3-7 years for furniture and equipment, and 5 years for software and website development). Leasehold improvements are amortized over the lesser of the estimated useful lives or the lease term. Assets with a cost of \$1,500 or more and useful lives of more than one year are capitalized.

Deferred Rent

Deferred rent represents escalations and abatements in monthly rent payments and a tenant improvement allowance which are amortized using the straight-line method over the life of the lease.

Deferred Florida License Plate Program Revenue

Deferred Florida license plate program revenue consists of funds received from the State of Florida in advance. The funds are to be used for the Florida license plate program.

Net Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, its 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: Represents resources of the Foundation available to support general operations and exempt purpose programs.

Temporarily Restricted: Represents resources, including earnings on permanently restricted endowments, that are subject to donor-imposed purpose or time restrictions.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted Endowment: Represents resources contributed to the Foundation which are to be held in perpetuity.

Temporarily Restricted Support

The Foundation's policy is to report interest and dividends, realized and unrealized gains and losses attributable to investment assets related to permanently restricted funds as temporarily restricted support. When a restriction expires (that is, when a stipulated time restriction ends or the purpose for restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Special Events

Throughout the year, committees conduct various scholarship balls, golf tournaments and other ancillary events in order to increase visibility of the Foundation's mission and to provide support to its programs. The Foundation also conducts special events through a combined effort of committees and the Foundation's national office.

Contributions

Contributions received, including unconditional promises to give, are recorded as unrestricted, temporarily restricted or permanently restricted revenue in the period received at their fair values.

In the normal course of business, the Foundation receives donated services from volunteers, including officers and directors, and affiliated committees to support fundraising and administrative activities. The value of these contributed services is not reflected in the accompanying financial statements.

Scholarships

Scholarships are awarded for a period of one academic year. It is the Foundation's policy to accrue scholarships at the date awarded. During the years ended December 31, 2011 and 2010, the Foundation awarded 1,636 and 1,424 scholarships totaling \$4,973,500 and \$4,277,160, respectively, for use during the 2011-2012 and 2010-2011 academic years. The award amount is prior to any current year reductions, refunds and withdrawals. Total scholarship expense at December 31, 2011 and 2010 was \$5,632,452 and \$5,442,549, including an allocation of indirect costs of \$1,287,552 and \$1,147,973, respectively.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, overhead costs have been allocated among the functional activities benefited.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

Fair Value Measurements

Fair value measurement of investments is determined using a framework for measuring fair value, establishing a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Foundation accounts for certain financial assets and liabilities at fair value under various accounting literature.

Fair Value Hierarchy

The Foundation 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 statements 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 the Foundation has the ability to access.

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 among others, quoted prices for similar assets or liabilities in active markets or non-active markets.

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 27, 2012, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF RISK

Credit Risk

Financial instruments that subject the Foundation 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

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

NOTE 3 INVESTMENTS

Investments are recorded at fair value. At December 31, 2011 and 2010, investments consisted of the following:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Money Market	\$ 3,819,837	\$ 3,819,837	\$ 3,872,614	\$ 3,872,614
Equities	11,277,516	11,009,273	13,103,497	14,412,552
Mutual Funds - Fixed Income	4,870,928	4,806,925	2,228,518	2,289,854
Mutual Funds - Equities	2,310,737	2,157,714	5,600,972	5,209,858
Mutual Funds - Real Estate	510,988	404,313	103,945	103,945
Mutual Funds - Commodities	1,605,031	1,048,932	-	-
Corporate Bonds	2,233,111	2,267,165	2,129,269	2,212,000
U.S. Government Bonds	1,221,285	1,255,084	176,875	175,718
Certificates of Deposit	100,000	104,008	296,000	302,409
Mortgage Backed Securities	1,625,868	1,645,550	300,837	299,985
Commodities	35,356	34,865	20,700	20,808
International Bonds	93,375	83,706	167,397	172,238
Hedge Funds	2,610,000	2,555,317	-	-
	<u>\$ 32,314,032</u>	<u>\$ 31,192,689</u>	<u>\$ 28,000,624</u>	<u>\$ 29,071,981</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3 INVESTMENTS (CONTINUED)

Investments are reported in the accompanying statements of financial position as:

	2011	2010
Investments	\$ 28,722,278	\$ 26,377,468
Assets Held Under Charitable Trusts	2,470,411	2,694,513
Total	\$ 31,192,689	\$ 29,071,981

Investment fees totaling \$224,707 and \$175,299 as of December 31, 2011 and 2010, respectively, are netted against realized (loss) gain on sales of investments in the accompanying statements of cash flows.

Investment (loss) gain is comprised of the following for the years ending December 31, 2011 and 2010:

	2011	2010
Interest and Dividend Income	\$ 643,203	\$ 797,600
Unrealized Loss on Investments	(2,192,700)	(6,525)
Realized (Loss) Gain on Sale of Investments	(108,539)	2,356,766
Total	\$ (1,658,036)	\$ 3,147,841

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 FAIR VALUE MEASUREMENTS

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	2011			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 10,060,140	\$ -	\$ -	\$ 10,060,140
Mutual Funds - Fixed income	4,806,925	-	-	4,806,925
Mutual Funds - Equities	2,152,932	-	-	2,152,932
Mutual Funds - Real Estate	389,453	-	-	389,453
Mutual Funds - Commodities	1,048,932	-	-	1,048,932
Corporate Bonds	-	1,225,848	-	1,225,848
U.S. Government Bonds	1,255,084	-	-	1,255,084
Mortgage Backed Securities	-	1,645,550	-	1,645,550
Hedge Funds	-	2,555,317	-	2,555,317
International Bonds	-	33,165	-	33,165
Total	19,713,466	5,459,880	-	25,173,346
<u>Assets Held Under Charitable Trusts*</u>				
Equities	949,133	-	-	949,133
Mutual Funds - Equities	4,782	-	-	4,782
Mutual Funds - Real Estate	14,860	-	-	14,860
Corporate Bonds	-	1,041,317	-	1,041,317
Commodities	-	-	34,865	34,865
Certificates of Deposit	-	104,008	-	104,008
International Bonds	-	50,541	-	50,541
Total	968,775	1,195,866	34,865	2,199,506
Amounts Held for Others	-	-	(401,694)	(401,694)
	<u>\$ 20,682,241</u>	<u>\$ 6,655,746</u>	<u>\$ (366,829)</u>	<u>\$ 26,971,158</u>

*Money market funds are recorded at cost which approximates fair value and accordingly are excluded.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

	2010			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 13,448,086	\$ -	\$ -	\$ 13,448,086
Mutual Funds - Fixed income	2,289,854	-	-	2,289,854
Mutual Funds - Equities	5,209,858	-	-	5,209,858
Corporate Bonds	-	1,217,544	-	1,217,544
U.S. Government Bonds	102,949	-	-	102,949
Mortgage Backed Securities	-	290,911	-	290,911
Certificates of Deposit	-	198,758	-	198,758
Mutual Funds - Real Estate	103,945	-	-	103,945
International Bonds	-	96,021	-	96,021
Total	<u>21,154,692</u>	<u>1,803,234</u>	<u>-</u>	<u>22,957,926</u>
<u>Assets Held Under Charitable Trusts*</u>				
Equities	964,466	-	-	964,466
Corporate Bonds	-	994,456	-	994,456
U.S. Government Bonds	72,769	-	-	72,769
Mortgage Backed Securities	-	9,074	-	9,074
Commodities	-	-	20,808	20,808
Certificates of Deposit	-	103,651	-	103,651
International Bonds	-	76,217	-	76,217
Total	<u>1,037,235</u>	<u>1,183,398</u>	<u>20,808</u>	<u>2,241,441</u>
Amounts Held for Others	<u>-</u>	<u>-</u>	<u>(393,475)</u>	<u>(393,475)</u>
	<u>\$ 22,191,927</u>	<u>\$ 2,986,632</u>	<u>\$ (372,667)</u>	<u>\$ 24,805,892</u>

*Money market funds are recorded at cost which approximates fair value and accordingly are excluded.

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets and liabilities for the years ended December 31, 2011 and 2010:

	Commodities	Amounts Held for Others	Total
Balance as of December 31, 2009	\$ -	\$ (382,167)	\$ (382,167)
Investment Income	-	(11,308)	(11,308)
Purchases	20,808	-	20,808
Balance as of December 31, 2010	<u>20,808</u>	<u>(393,475)</u>	<u>(372,667)</u>
Investment Income	711	(8,219)	(7,508)
Purchases	13,346	-	13,346
Balance as of December 31, 2011	<u>\$ 34,865</u>	<u>\$ (401,694)</u>	<u>\$ (366,829)</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

In September 2009 guidance was issued under the ASC Topic - Fair Value Measurements and Disclosures which clarified the fair value level classification for entities that calculate net asset value per share or its equivalent. The guidance states that “if a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement. If the investment is not redeemable at the measurement date but is redeemable in the future, the categorization is based on the length of time before it will become redeemable.”

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2011:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Graham Ltd	\$ 193,917	\$ -	Quarterly	45 days
Ivory Flagship Offshore Fund	194,544	-	Quarterly	45 days
Millennium International Ltd	596,130	-	Quarterly	90 days
OZ OF II Offshore Fund	378,845	-	Quarterly	30 days
ACL Alternative Fund	622,048	-	Daily	N/A
Aurora Offshore Ltd II	569,832	-	Quarterly	95 days

NOTE 5 PLEDGES RECEIVABLE

Promises to give at December 31, 2011 and 2010 represent unconditional amounts pledged for scholarships. Pledges expected to be collected in more than one year are reflected at fair value. The fair value is estimated by calculating the present value of estimated future cash flows. The discount rate used ranges from 3.75% - 9.50%.

The amount of the discounted promises to give at December 31, 2011 and 2010 at the realized present value is reflected below:

	2011	2010
Receivables Due in Less than One Year	\$ 2,937,909	\$ 1,995,564
Receivables Due in One to Five Years (Future Value)	5,445,772	3,212,795
Receivables Due in More than Five Years (Future Value)	310,750	545,750
Total Pledges Receivable	<u>8,694,431</u>	<u>5,754,109</u>
Less:		
Discount to Reduce to Present Value	604,437	475,888
Allowance for Uncollectible Pledges	<u>45,000</u>	<u>85,000</u>
Net Pledges Receivable	<u><u>\$ 8,044,994</u></u>	<u><u>\$ 5,193,221</u></u>

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NOTE 6 LICENSE PLATE PROGRAMS

The Foundation has agreements with both Florida and Illinois whereby a grant is received from the states for the purpose of the Foundation providing grants for scholarships for higher education. The scholarship recipients must be the children of current or former members of the United States Marine Corps who meet the academic, financial, and other requirements established by the Foundation. If the agreement is to be terminated before all funds are disbursed, all unexpended grant funds must be reimbursed to the state.

All amounts received and not yet expended before year-end are included in scholarships payable and deferred Florida license plate program revenue. Junior ROTC and Young Marines programs payable balances were \$114,728 and \$65,494 at December 31, 2011 and 2010, respectively.

NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS

The Foundation received assets under the Tipples Charitable Remainder Annuity Trust ("Trust") which requires the Foundation, as trustee of the Trust, to pay the beneficiaries of the Trust \$8,400 annually for up to ten years after the death of its initial income beneficiary. The funds remaining at the termination of the Trust will be used to fund one or more memorial scholarships. The assets of the Trust, which are included in the accompanying statement of financial position at December 31, 2011 and 2010, amounted to \$78,482 and \$90,318, respectively. The liability under the Trust, which represents the present value of the beneficiaries' annuity payments, discounted at a risk-free rate of 4.57%, amounted to \$105,913 and \$105,912 at December 31, 2011 and 2010, respectively.

The Foundation received assets in 2005 under the Cuneo Charitable Remainder Unitrust ("Unitrust"), which requires the Foundation, as trustee of the Unitrust, to pay the remaining beneficiary annually the lesser of the Unitrust income or 5% of the fair value of Unitrust assets until the beneficiary's death. The assets of the Trust, which are included in the accompanying statement of financial position at December 31, 2011 and 2010, amounted to \$578,439 and \$607,857, respectively. The liability under the Unitrust at December 31, 2011 and 2010, which represents the present value of the beneficiary's projected payments, using an assumed long-term rate of return on Unitrust assets of 6.65%, a payout assumption of annual income being earned on the Unitrust assets at 3%, and a risk-free discount rate of 4.91%, amounted to \$142,666 and \$163,590, respectively.

The Foundation received assets in 2010 under the McCravey Charitable Remainder Unitrust ("McCravey Unitrust"). The McCravey Unitrust requires the Foundation as trustee to pay the beneficiary annually a portion of the McCravey Unitrust equal to 5% of the net fair value of the property until the beneficiary's death. The assets of the McCravey Unitrust, which are included in the accompanying statements of financial position at December 31, 2011 and 2010, amounted to \$1,815,226 and \$1,996,409, respectively. The liability under the McCravey Unitrust, which represents the present value of the beneficiary's annuity payments, discounted at a risk-free rate of 1.35%, amounted to \$478,168 and \$526,811 at December 31, 2011 and 2010, respectively.

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NOTE 8 AMOUNTS HELD FOR OTHERS

Amounts held for others represent funds not controlled by the Foundation and held in a custodial capacity on behalf of others. The amounts held for others relate to a revolving low-interest loan fund established by Colonel Walter and Eleanor Short for needy undergraduate students enrolled in NROTC, MECEP and PLC programs, who are completing pre-commissioning requirements to become Marine officers. The Foundation does not control the disbursements of these funds. To date, no loans have been made.

Investments and cash equivalents at December 31, 2011 and 2010 include \$401,694 and \$393,475, respectively, representing the principal of approximately \$109,000 and appreciation of \$292,694 and \$284,475, respectively, on the Short fund.

NOTE 9 ENDOWMENT

The Foundation has donor-restricted endowment funds established for a variety of purposes. As required by U.S. generally accepted accounting principles (GAAP), net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. 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 fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Foundation interpreted Virginia's UPMIFA since the institutional funds are in Virginia. 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) accumulations 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation's endowment investment policy objectives are to protect the principal, earn a return, satisfy the payout requirement, and provide growth. The Foundation's spending policy provides for the awarding of annual scholarships in an amount equal to 4% of a moving three-year average of the fair market value of all endowed funds as of the close of each fiscal year included in such moving average.

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NOTE 9 ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2009	\$ -	\$ 2,799,598	\$ 18,532,999	\$ 21,332,597
Investment Gain	-	3,219,244	-	3,219,244
Non-Special Events Contributions	-	-	2,081,741	2,081,741
Special Events Contributions	-	-	660,000	660,000
Appropriations	-	(596,188)	-	(596,188)
Endowment Net Assets, December 31, 2010	-	5,422,654	21,274,740	26,697,394
Investment Loss	(70,836)	(1,093,788)	-	(1,164,624)
Non-Special Events Contributions	-	-	3,952,626	3,952,626
Special Events Contributions	-	-	1,469,107	1,469,107
Appropriations	-	(650,234)	-	(650,234)
Endowment Net Assets, December 31, 2011	<u>\$ (70,836)</u>	<u>\$ 3,678,632</u>	<u>\$ 26,696,473</u>	<u>\$ 30,304,269</u>

Fund with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. The Foundation determined that donor-restricted funds with deficiencies as of December 31, 2011 were \$70,836. The Foundation has determined that there are no donor-restricted endowment funds with deficiencies as of December 31, 2010.

NOTE 10 RETIREMENT PLAN

The Foundation maintains a 403(b) Retirement Plan for employees meeting certain eligibility requirements, as outlined within the Plan. Participants are eligible to make voluntary contributions to the Plan immediately upon employment. The Foundation contributes 5% of each participant's compensation upon completion of one full year of employment and credited with at least 1,000 hours of service. Contributions to the Plan by the Foundation amounted to \$36,139 and \$45,221 for the years ended December 31, 2011 and 2010, respectively.

NOTE 11 RELATED PARTIES

During the years ended December 31, 2011 and 2010, the Foundation had received contributions from Board members totaling \$2,488,930 and \$108,863, respectively. Pledges receivable from Board members are \$947,419 and \$563,286 as of December 31, 2011 and 2010, respectively.

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NOTE 12 COMMITMENTS

Operating Lease

In May 2011 the Foundation entered into a non-cancellable operating lease for office space in Alexandria, Virginia that expires in 2021. The lease calls for an annual escalation increase of 2.5% effective on the anniversary date of each term. In addition, the Foundation received \$296,300 of leasehold improvements related to the office space and six months of free rent.

Total rent and operating expenses for the year ended December 31, 2011 was \$111,396.

Total future minimum rental payments for the years ending December 31, are as follows:

<u>December 31,</u>	<u>Amount</u>
2012	\$ 145,063
2013	167,762
2014	171,666
2015	171,808
2016	168,191
Thereafter	<u>938,406</u>
Total	<u>\$ 1,762,896</u>

Hotel Commitments

The Foundation has entered into agreements with hotels for room and space accommodations. The agreements indicated that the Foundation is liable for liquidated damages in the event of cancellation. At December 31, 2011, the Foundation commitment for liquidated damages totaled approximately \$238,000.

NOTE 13 SUBSEQUENT EVENT

On April 2, 2012, the Foundation settled on the sale of the building it owned for approximately \$780,000.