

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**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 financial statements of Marine Corps Scholarship Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of financial position of Marine Corps Scholarship Foundation, Inc. as of December 31, 2012 and 2011 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Arlington, Virginia  
July 12, 2013

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 7,466,095	\$ 6,599,325
Receivables	5,140	45,005
Accrued Interest Receivable	21,153	25,142
Prepaid Expenses	338,407	239,632
Investments	35,721,884	28,722,278
Pledges Receivable, Net of Allowance	9,262,934	8,044,994
Inventory	-	30,597
Deposits	79,968	12,593
Cash Surrender Value of Life Insurance Policy	18,849	15,707
Assets Held Under Charitable Trusts	2,585,349	2,470,411
Property and Equipment:		
Building and Building Improvements	-	620,070
Furniture and Equipment	192,198	211,781
Leasehold Improvements	316,956	307,528
Software and Website Development	398,701	395,287
Total Property and Equipment	907,855	1,534,666
Less: Accumulated Depreciation and Amortization	520,248	690,570
Net Property and Equipment	387,607	844,096
 Total Assets	 \$ 55,887,386	 \$ 47,049,780
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 355,003	\$ 471,312
Scholarships Payable	177,425	297,086
Deferred Rent	372,190	373,579
Deferred Florida License Plate Program Revenue	469,531	682,682
Deferred Illinois License Plate Program Revenue	37,404	50,347
Obligations Under Charitable Trusts	603,589	726,747
Amounts Held for Others	413,551	401,694
Total Liabilities	2,428,693	3,003,447
 <b>NET ASSETS</b>		
Unrestricted	660,762	2,925,561
Temporarily Restricted	19,044,935	14,424,299
Permanently Restricted Endowment	33,752,996	26,696,473
Total Net Assets	53,458,693	44,046,333
 Total Liabilities and Net Assets	 \$ 55,887,386	 \$ 47,049,780

See accompanying Notes to the Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>								
Special Events	\$ 4,793,355	\$ 4,019,567	\$ 1,802,397	\$ 10,615,319	\$ 4,205,898	\$ 2,809,829	\$ 1,469,107	\$ 8,484,834
Contributions	1,382,363	3,080,442	4,277,796	8,740,601	1,518,180	1,355,803	4,050,971	6,924,954
Investment Gain (Loss)	2,076	3,205,976	-	3,208,052	(556,468)	(1,101,568)	-	(1,658,036)
Other Revenue - Florida License Plate Program	624,315	-	-	624,315	398,197	-	-	398,197
Other Revenue - Illinois License Plate Program	90,450	-	-	90,450	70,761	-	-	70,761
Other Revenue/Change in Values of Obligations Under Charitable Trusts	153	33,954	(23,670)	10,437	275,436	(5,349)	(98,345)	171,742
Gain on Sale of Building	375,972	-	-	375,972	-	-	-	-
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	4,719,303	(4,719,303)	-	-	3,349,090	(3,349,090)	-	-
Total Revenue, Gains, and Other Support	11,987,987	5,620,636	6,056,523	23,665,146	9,261,094	(290,375)	5,421,733	14,392,452
<b>EXPENSES</b>								
Scholarships	7,760,619	-	-	7,760,619	5,632,452	-	-	5,632,452
Special Events	2,537,853	-	-	2,537,853	1,960,417	-	-	1,960,417
Total Program Expenses	10,298,472	-	-	10,298,472	7,592,869	-	-	7,592,869
General and Administrative	1,810,854	-	-	1,810,854	1,819,231	-	-	1,819,231
Fundraising	2,143,460	-	-	2,143,460	1,654,509	-	-	1,654,509
Total Expenses	14,252,786	-	-	14,252,786	11,066,609	-	-	11,066,609
<b>CHANGE IN NET ASSETS</b>	(2,264,799)	5,620,636	6,056,523	9,412,360	(1,805,515)	(290,375)	5,421,733	3,325,843
Net Assets - Beginning of Year	2,925,561	14,424,299	26,696,473	44,046,333	4,731,076	14,714,674	21,274,740	40,720,490
Reclassification of Net Assets	-	(1,000,000)	1,000,000	-	-	-	-	-
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 660,762</u>	<u>\$ 19,044,935</u>	<u>\$ 33,752,996</u>	<u>\$ 53,458,693</u>	<u>\$ 2,925,561</u>	<u>\$ 14,424,299</u>	<u>\$ 26,696,473</u>	<u>\$ 44,046,333</u>

See accompanying Notes to the Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 9,412,360	\$ 3,325,843
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Permanently Restricted Contributions	(6,056,523)	(5,421,733)
Depreciation	170,160	180,457
Gain on Sale of Property	(375,972)	-
Realized (Gain) Loss on Sales of Investments	(93,177)	108,539
Unrealized (Gain) Loss on Investments	(2,317,659)	2,192,700
Donated Stock	(103,101)	(377,817)
Donated Life Insurance Policy	(3,142)	(3,049)
Pledges Receivable	(1,217,940)	(2,851,773)
Inventory Write-off	25,976	-
Change in Assets and Liabilities:		
Receivables	39,865	(28,168)
Accrued Interest Receivable	3,989	(13,819)
Prepaid Expenses	(98,775)	(97,407)
Inventory	4,621	2,748
Deposits	(67,375)	(8,796)
Accounts Payable and Accrued Expenses	(116,309)	107,893
Scholarships Payable	(119,661)	(10,650)
Deferred Rent	(1,389)	373,579
Deferred Florida License Plate Program Revenue	(213,151)	682,682
Deferred Illinois License Plate Program Revenue	(12,943)	(7,701)
Amounts Held for Others	11,857	8,219
Net Cash Used in Operating Activities	<u>(1,128,289)</u>	<u>(1,838,253)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(19,619,683)	(24,949,871)
Proceeds from Sales of Investments	15,019,076	20,905,741
Purchases of Property and Equipment	(59,072)	(378,322)
Proceeds from Sale of Property	721,373	-
Net Cash Used in Investing Activities	<u>(3,938,306)</u>	<u>(4,422,452)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments under Charitable Trusts	(123,158)	(69,566)
Permanently Restricted Contributions	6,056,523	5,421,733
Net Cash Provided by Financing Activities	<u>5,933,365</u>	<u>5,352,167</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	866,770	(908,538)
Cash and Cash Equivalents - Beginning of Year	<u>6,599,325</u>	<u>7,507,863</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 7,466,095</u>	<u>\$ 6,599,325</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Receipt of Donated Stock	<u>\$ 103,101</u>	<u>\$ 377,817</u>

See accompanying Notes to the Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**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 includes 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 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 2009 through 2011 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, 2012 AND 2011**

**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 \$100,000 and \$45,000 as of December 31, 2012 and 2011, 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 and are recognized as revenue when scholarship awards are approved.

**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, 2012 AND 2011**

**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.

**Reclassification of Net Assets**

The Foundation has a stipulated policy whereby restricted funds pledged or received with the intention of being endowed funds are recorded as temporarily restricted until such time as accumulations in the fund as defined reach a minimum of \$100,000, inclusive of earnings. Upon reaching the accumulation threshold, the funds are reclassified to permanently restricted endowed funds.

**Temporarily Restricted Support**

The Foundation's policy is to report interest and dividends and 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, 2012 and 2011, the Foundation awarded 1,913 and 1,636 scholarships totaling \$6,160,500 and \$4,973,500, respectively, for use during the 2012-2013 and 2011-2012 academic years. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense at December 31, 2012 and 2011 was \$7,760,619 and \$5,632,452, including an allocation of indirect costs of \$1,863,322 and \$1,287,552, respectively.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 activity benefited.

**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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through July 12, 2013, 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 and 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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 3 INVESTMENTS**

Investments are recorded at fair value. At December 31, 2012 and 2011, investments consisted of the following:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 5,262,375	\$ 5,262,375	\$ 3,819,837	\$ 3,819,837
Equities	11,329,707	12,524,589	11,277,516	11,009,273
Mutual Funds - Fixed Income	6,835,980	7,176,863	4,870,928	4,806,925
Mutual Funds - Equities	1,629,356	1,706,617	2,310,737	2,157,714
Mutual Funds - Real Estate	1,593,321	1,587,766	510,988	404,313
Mutual Funds - Commodities	1,827,390	1,244,003	1,605,031	1,048,932
Corporate Bonds	2,681,196	2,770,731	2,233,111	2,267,165
U.S. Government Bonds	1,489,536	1,490,547	1,221,285	1,255,084
Certificates of Deposit	100,000	102,782	100,000	104,008
Mortgage Backed Securities	1,738,673	1,763,008	1,625,868	1,645,550
Commodities	-	-	35,356	34,865
International Bonds	25,055	25,149	93,375	83,706
Hedge Funds	2,598,328	2,652,803	2,610,000	2,555,317
<b>Total</b>	<b>\$ 37,110,917</b>	<b>\$ 38,307,233</b>	<b>\$ 32,314,032</b>	<b>\$ 31,192,689</b>

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

	2012	2011
Investments	\$ 35,721,884	\$ 28,722,278
Assets Held Under Charitable Trusts	2,585,349	2,470,411
<b>Total</b>	<b>\$ 38,307,233</b>	<b>\$ 31,192,689</b>

Investment fees totaling \$237,664 and \$224,007 as of December 31, 2012 and 2011, respectively, are netted against interest and dividend income.

Investment gain (loss) is comprised of the following for the years ending December 31, 2012 and 2011:

	2012	2011
Interest and Dividend Income	\$ 797,216	\$ 643,203
Unrealized Gain (Loss) on Investments	2,317,659	(2,192,700)
Realized Gain (Loss) on Sales of Investments	93,177	(108,539)
<b>Total</b>	<b>\$ 3,208,052</b>	<b>\$ (1,658,036)</b>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**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, 2012 and 2011:

	2012			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 11,460,409	\$ -	\$ -	\$ 11,460,409
Mutual Funds - Fixed income	7,156,447	-	-	7,156,447
Mutual Funds - Equities	1,701,835	-	-	1,701,835
Mutual Funds - Real Estate	1,558,474	-	-	1,558,474
Mutual Funds - Commodities	1,206,264	-	-	1,206,264
Corporate Bonds	-	1,533,884	-	1,533,884
U.S. Government Bonds	1,490,547	-	-	1,490,547
Mortgage Backed Securities	-	1,763,008	-	1,763,008
Hedge Funds	-	2,652,803	-	2,652,803
Total	<u>24,573,976</u>	<u>5,949,695</u>	-	<u>30,523,671</u>
<u>Assets Held Under Charitable Trusts*</u>				
Equities	1,064,180	-	-	1,064,180
Mutual Funds - Fixed income	20,416	-	-	20,416
Mutual Funds - Equities	4,782	-	-	4,782
Mutual Funds - Real Estate	29,292	-	-	29,292
Mutual Funds - Commodities	37,739	-	-	37,739
Corporate Bonds	-	1,236,847	-	1,236,847
Certificates of Deposit	-	102,782	-	102,782
International Bonds	-	25,149	-	25,149
Total	<u>1,156,409</u>	<u>1,364,778</u>	-	<u>2,521,187</u>
Amounts Held for Others	-	-	(413,551)	(413,551)
	<u>\$ 25,730,385</u>	<u>\$ 7,314,473</u>	<u>\$ (413,551)</u>	<u>\$ 32,631,307</u>

\*Cash and 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, 2012 AND 2011**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

	2011			
	Level 1	Level 2	Level 3	Total
<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	<u>19,713,466</u>	<u>5,459,880</u>	<u>-</u>	<u>25,173,346</u>
<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
Mutual Funds - Commodities	34,865	-	-	34,865
Corporate Bonds	-	1,041,317	-	1,041,317
Certificates of Deposit	-	104,008	-	104,008
International Bonds	-	50,541	-	50,541
Total	<u>1,003,640</u>	<u>1,195,866</u>	<u>-</u>	<u>2,199,506</u>
Amounts Held for Others	<u>-</u>	<u>-</u>	<u>(401,694)</u>	<u>(401,694)</u>
	<u>\$ 20,717,106</u>	<u>\$ 6,655,746</u>	<u>\$ (401,694)</u>	<u>\$ 26,971,158</u>

\*Cash and 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 liabilities for the years ended December 31, 2012 and 2011:

	Amounts Held for Others
Balance as of December 31, 2010	\$ (393,475)
Investment Income	(8,219)
Balance as of December 31, 2011	<u>(401,694)</u>
Investment Income	(7,285)
Purchases	(4,572)
Balance as of December 31, 2012	<u>\$ (413,551)</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2012 and 2011:

	2012			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Graham Ltd	\$ 203,945	\$ -	Quarterly	45 days
Ivory Flagship Offshore Fund	211,644	-	Quarterly	45 days
Millennium International Ltd	630,610	-	Quarterly	90 days
OZ OF II Offshore Fund	421,335	-	Quarterly	30 days
ACL Alternative Fund	592,616	-	Daily	N/A
Aurora Offshore Ltd II	604,325	-	Quarterly	95 days

  

	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, 2012 and 2011 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 .89% - 4.5%.

The amount of the discounted promises to give at December 31, 2012 and 2011 at the realized present value is reflected below:

	2012	2011
Receivables Due in One Year	\$ 3,757,911	\$ 2,937,909
Receivables Due in Two to Five Years	5,032,672	5,260,772
Receivables Due in More than Five Years	1,010,750	495,750
Total Pledges Receivable	9,801,333	8,694,431
Less:		
Discount to Reduce to Present Value	438,399	604,437
Allowance for Uncollectible Pledges	100,000	45,000
Net Pledges Receivable	<u>\$ 9,262,934</u>	<u>\$ 8,044,994</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**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.

As part of the Florida License Plate Program, the Foundation awards scholarships to the Marine Corps Junior Reserves Officers' Training Corps (JROTC) Program in Florida in the amount of \$55,000 each academic year. In addition, the Foundation provides \$55,000 to the Florida Young Marines program. The recipients of these funds are not required to meet the eligibility criteria of the Foundation, and do not complete an application.

The scholarship recipients, except for those who participate in the JROTC and Young Marines programs, 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 and Illinois license plate program revenues. JROTC and Young Marines programs payable balances were \$129,833 and \$114,728 at December 31, 2012 and 2011, respectively.

**NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS**

The Foundation received assets in 1998 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 last payment will occur in 2017. 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 statements of financial position at December 31, 2012 and 2011, amounted to \$82,139 and \$78,482, 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 \$37,170 and \$105,913 at December 31, 2012 and 2011, 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 statements of financial position at December 31, 2012 and 2011, amounted to \$613,536 and \$576,703, respectively. The liability under the Unitrust at December 31, 2012 and 2011, 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 pay-out assumption of annual income being earned on the Unitrust assets at 3%, and a risk-free discount rate of 4.91%, amounted to \$150,183 and \$142,666, respectively.



**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS (CONTINUED)**

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, 2012 and 2011, amounted to \$1,889,674 and \$1,815,226, 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 \$416,236 and \$478,168 at December 31, 2012 and 2011, respectively.

**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, 2012 and 2011 include \$413,551 and \$401,694, respectively, representing the principal of approximately \$109,000 and appreciation of \$304,551 and \$292,694, 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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 9 ENDOWMENT (CONTINUED)**

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.

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31, 2012 and 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2010	\$ -	\$ 5,422,654	\$ 19,555,467	\$ 24,978,121
Investment Loss	(70,836)	(1,093,788)	-	(1,164,624)
Contributions Collected	-	-	2,763,850	2,763,850
Appropriations	-	(650,234)	-	(650,234)
Endowment Net Assets, December 31, 2011	<u>(70,836)</u>	<u>3,678,632</u>	<u>22,319,317</u>	<u>25,927,113</u>
Investment Gain	70,836	2,972,618	-	3,043,454
Contributions Collected	-	-	6,410,094	6,410,094
Appropriations	<u>-</u>	<u>(807,091)</u>	<u>-</u>	<u>(807,091)</u>
Endowment Net Assets, December 31, 2012	<u>\$ -</u>	<u>\$ 5,844,159</u>	<u>\$ 28,729,411</u>	<u>\$ 34,573,570</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 has determined that there are no donor-restricted endowment funds with deficiencies as of December 31, 2012.

The Foundation determined that donor-restricted funds with deficiencies as of December 31, 2011 were \$70,836.

**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 \$49,757 and \$36,139 for the years ended December 31, 2012 and 2011, respectively.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 11 RELATED PARTIES**

During the years ended December 31, 2012 and 2011, the Foundation received contributions from Board members totaling \$4,909,468 and \$1,847,321, respectively. Pledges receivable from Board members are \$2,856,334 and \$947,419 as of December 31, 2012 and 2011, respectively.

**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. In accordance with accounting standards, annual rent increases and lease incentives are being amortized over the life of the lease, and as a result, the Foundation is recognizing rent expense on the straight-line basis over the lease term. The unamortized portion resulting from the difference between the amounts paid and expensed comprise the deferred rent obligation in the accompanying statements of financial position.

Total rent and operating expenses for the years ended December 31, 2012 and 2011 were \$126,499 and \$111,396, respectively.

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

December 31,	Amount
2013	\$ 167,765
2014	171,669
2015	171,812
2016	168,194
2017	172,399
Thereafter	766,026
Total	\$ 1,617,865

**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, 2012, the Foundation commitment for liquidated damages totaled approximately \$352,000.

**NOTE 13 SALE OF BUILDING**

On April 2, 2012, the Foundation settled on the sale of the building it owned for approximately \$780,000. The sale resulted in a gain of approximately \$376,000 which is recorded in the accompanying statements of activities.



**CliftonLarsonAllen**

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**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of Marine Corps Scholarship Foundation, Inc., as of and for the years ended December 31, 2012 and 2011, and our report thereon dated July 12, 2013 which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
July 12, 2013

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2012**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships Paid	\$ 5,897,297	\$ -	\$ -	\$ 5,897,297
Direct Events Expenses	2,537,853	-	-	2,537,853.0
Wages and Benefits	942,987	578,885	753,069	2,274,941
Legal Fees	559	6,453	76,613	83,625
Accounting Fees	-	107,258	-	107,258
Bad Debt Expense	-	55,000	-	55,000
Direct Mail	30,603	50,687	278,437	359,727
Other Professional Fees	132,596	139,053	179,322	450,971
Advertising and Promotion	116,682	438,923	239,357	794,962
Office Expenses	29,795	40,365	130,842	201,002
Information Technology	52,523	26,008	37,705	116,236
Occupancy	49,857	57,043	53,349	160,249
Travel	41,661	16,717	79,791	138,169
Meetings and Conferences	405,888	218,919	73,245	698,052
Depreciation	58,705	49,346	62,108	170,159
Insurance	-	13,270	-	13,270
Other Expense	1,466	12,927	179,622	194,015
	<u>1,466</u>	<u>12,927</u>	<u>179,622</u>	<u>194,015</u>
Total	<u>\$ 10,298,472</u>	<u>\$ 1,810,854</u>	<u>\$ 2,143,460</u>	<u>\$ 14,252,786</u>