

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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.

Board of Directors
Marine Corps Scholarship Foundation, Inc.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

CliftonLarsonAllen LLP

Arlington, Virginia
July 28, 2016

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and Cash Equivalents	\$ 6,946,138	\$ 7,871,715
Receivables	1,252	1,325
Accrued Interest Receivable	18,300	36,357
Prepaid Expenses	535,988	518,882
Investments	46,959,804	44,249,596
Pledges Receivable, Net of Allowance	24,219,179	12,473,917
Deposits	47,546	38,027
Cash Surrender Value of Life Insurance Policy	29,060	25,557
Beneficial Interest in Pooled Income Fund	47,939	48,091
Assets Held Under Charitable Trusts and Annuities	3,356,409	2,671,404
Property and Equipment:		
Furniture and Equipment	294,844	289,425
Leasehold Improvements	328,791	328,791
Software and Website Development	455,024	455,024
Total Property and Equipment	1,078,659	1,073,240
Less: Accumulated Depreciation and Amortization	779,644	680,426
Net Property and Equipment	299,015	392,814
 Total Assets	 \$ 82,460,630	 \$ 68,327,685
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 705,936	\$ 527,401
Scholarships Payable	241,208	182,968
Deferred Rent	289,651	321,261
Deferred Florida License Plate Program Revenue	122,956	260,586
Deferred Illinois License Plate Program Revenue	61,045	127,533
Line of Credit	350,000	250,000
Obligations Under Charitable Trusts and Annuities	930,543	507,267
Amounts Held for Others	425,283	416,865
Other Liabilities	-	2,300
Total Liabilities	3,126,622	2,596,181
NET ASSETS (DEFICIT)		
Unrestricted	(1,797,014)	(662,217)
Temporarily Restricted:		
Temporarily Restricted - Unrestricted Promises to Give for Operations Solely Restricted for Time of Receipt	9,437,000	1,654,000
Total Unrestricted and Temporarily Restricted Promises to Give	7,639,986	991,783
Temporarily Restricted - Purpose Restricted	33,145,853	28,298,849
Total Temporarily Restricted	42,582,853	29,952,849
Permanently Restricted	38,548,169	36,440,872
Total Net Assets	79,334,008	65,731,504
 Total Liabilities and Net Assets (Deficit)	 \$ 82,460,630	 \$ 68,327,685

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE, GAIN, AND OTHER SUPPORT								
Special Events	\$ 5,202,409	\$ 13,619,048	\$ 1,253,007	\$ 20,074,464	\$ 4,235,537	\$ 8,878,034	\$ 1,674,461	\$ 14,788,032
Contributions	2,819,214	7,710,677	1,249,929	11,779,820	1,935,044	3,481,260	115,636	5,531,940
Investment (Loss) Gain	(285,792)	(981,802)	(152)	(1,267,746)	115,835	1,463,083	(725)	1,578,193
Other Revenue - Florida License Plate Program	617,550	-	-	617,550	544,735	-	-	544,735
Other Revenue - Illinois License Plate Program	101,500	-	-	101,500	89,142	-	-	89,142
Other Revenue/Change in Values of Obligations Under Charitable Trusts	1,305	28,033	(58,479)	(29,141)	67,553	(12,497)	(90,581)	(35,525)
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	7,792,026	(7,792,026)	-	-	7,244,147	(7,244,147)	-	-
Total Revenue, Gain, and Other Support	<u>16,248,212</u>	<u>12,583,930</u>	<u>2,444,305</u>	<u>31,276,447</u>	<u>14,231,993</u>	<u>6,565,733</u>	<u>1,698,791</u>	<u>22,496,517</u>
EXPENSES								
Scholarships	9,128,970	-	-	9,128,970	8,476,212	-	-	8,476,212
Special Events	3,646,334	-	-	3,646,334	3,103,512	-	-	3,103,512
Total Program Expenses	<u>12,775,304</u>	<u>-</u>	<u>-</u>	<u>12,775,304</u>	<u>11,579,724</u>	<u>-</u>	<u>-</u>	<u>11,579,724</u>
					-			
General and Administrative	1,626,615	-	-	1,626,615	1,836,377	-	-	1,836,377
Fundraising	3,272,024	-	-	3,272,024	2,445,872	-	-	2,445,872
Total Expenses	<u>17,673,943</u>	<u>-</u>	<u>-</u>	<u>17,673,943</u>	<u>15,861,973</u>	<u>-</u>	<u>-</u>	<u>15,861,973</u>
CHANGE IN NET ASSETS	(1,425,731)	12,583,930	2,444,305	13,602,504	(1,629,980)	6,565,733	1,698,791	6,634,544
Net (Deficit) Assets - Beginning of Year	(662,217)	29,952,849	36,440,872	65,731,504	644,227	23,329,354	35,123,379	59,096,960
Reclassification of Net Assets	290,934	46,074	(337,008)	-	323,536	57,762	(381,298)	-
NET (DEFICIT) ASSETS - END OF YEAR	<u>\$ (1,797,014)</u>	<u>\$ 42,582,853</u>	<u>\$ 38,548,169</u>	<u>\$ 79,334,008</u>	<u>\$ (662,217)</u>	<u>\$ 29,952,849</u>	<u>\$ 36,440,872</u>	<u>\$ 65,731,504</u>

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 13,602,504	\$ 6,634,544
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Permanently Restricted Contributions	(2,444,305)	(1,698,791)
Depreciation	96,848	98,493
Realized Gain on Sales of Investments	(77,537)	(348,850)
Unrealized Loss (Gain) on Investments	2,297,418	(332,934)
Donated Stock	(1,924,179)	(1,704,734)
Change in Assets and Liabilities:		
Receivables	73	32,260
Accrued Interest Receivable	18,057	243
Prepaid Expenses	(17,106)	(141,515)
Pledges Receivable	(11,745,262)	(2,928,477)
Deposits	(9,519)	103,796
Increase in Cash Surrender Value of Life Insurance Policy	(3,503)	(3,419)
Accounts Payable and Accrued Expenses	178,535	199,898
Scholarships Payable	58,240	109,864
Deferred Rent	(31,610)	(27,608)
Deferred Florida License Plate Program Revenue	(137,630)	(91,290)
Deferred Illinois License Plate Program Revenue	(66,488)	75,867
Amounts Held for Others	8,418	831
Other Liabilities	(2,300)	2,300
Net Cash Used in Operating Activities	(199,346)	(19,522)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(12,488,905)	(9,530,757)
Proceeds from Sales of Investments	8,797,989	8,055,609
Purchases of Property and Equipment	(3,048)	(134,402)
Net Cash Used in Investing Activities	(3,693,964)	(1,609,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under Charitable Trusts and Annuities	423,276	(18,723)
Permanently Restricted Contributions	2,444,305	1,698,791
Line of Credit Advancement	100,000	250,000
Change in Beneficial Interest in Pooled Income Fund	152	725
Net Cash Provided by Financing Activities	2,967,733	1,930,793
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(925,577)	301,721
Cash and Cash Equivalents - Beginning of Year	7,871,715	7,569,994
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,946,138	\$ 7,871,715
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Receipt of Donated Stock	\$ 1,924,179	\$ 1,704,734

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 an accredited college, university or career and technical institution.

The Foundation includes thirty-two unincorporated committees and one incorporated committee, 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 the 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.

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

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, 2015 AND 2014

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 may also invest in alternative investments, such as hedge funds and a private placement LLP. The hedge funds and private placement LLP 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 necessarily 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 collectability. Pledges receivable which management determines to be uncollectible are written off. Management has established an allowance of \$114,300 and \$125,380 as of December 31, 2015 and 2014, 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 (3-7 years for furniture and equipment, 5 years for software and 3 years for 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 and Illinois License Plate Programs Revenue

Deferred Florida and Illinois license plate program revenue consists of funds received from the States of Florida and Illinois in advance. The funds are to be used for the Florida and Illinois license plate programs and are recognized as revenue when scholarship awards are approved.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

To ensure the observance of limitations and restrictions placed on the use of resources available to the 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:

Operating Fund: Represents resources of the Foundation available to support general operations and exempt purpose programs. The December 31, 2015 and 2014, balances were (\$3,019,208) and (\$1,877,981), respectively. At December 31, 2015 and 2014, there were \$9,437,000 and \$1,654,000, respectively, in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included in the December 31, 2015 and 2014, unrestricted fund balances as these funds are currently temporarily restricted due to the timing of the pledge payments to be received in future years.

Board Designated: Represents proceeds from the sale of the building on St. Asaph Street that the Board designated in 2013 to fund program scholarships in future years. The December 31, 2015 and 2014, balances were \$664,697 and \$689,555, respectively. The remaining balance represents large bequests that the Board designated in 2015 and 2014 to fund program scholarships in future years. The December 31, 2015 and 2014, balances were \$579,443 and \$526,209, respectively.

Deficit of Endowment Assets: Represents the fair value of assets associated with the individual donor-restricted endowment funds that fell below the level that the donor requires the Foundation to retain as a fund of perpetual duration. The December 31, 2015 and 2014, balances were (\$21,946) and \$0, respectively.

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

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. During the years ended December 31, 2015 and 2014, certain donors who had previously provided permanently restricted endowed contributions requested the Foundation to transfer those endowed contributions to unrestricted or temporarily restricted funds.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, based on donor intent.

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, 2015 and 2014, the Foundation awarded 2,323 and 2,200 scholarships totaling \$7,034,000 and \$6,690,000, respectively, for use during the 2015-2016 and 2014-2015 academic years. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense at December 31, 2015 and 2014, was \$9,128,970 and \$8,476,212, including an allocation of indirect costs of \$2,388,674 and \$2,086,233, 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, 2015 AND 2014

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 to the presentation in the current year financial statements. These reclassifications had no effect on the previously report change in net assets.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 July 28, 2016, 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's 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.

NOTE 3 INVESTMENTS

Investments are recorded at fair value. At December 31, 2015 and 2014, investments consisted of the following:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 1,971,126	\$ 1,971,126	\$ 2,823,054	\$ 2,823,054
Equities	-	-	14,872	14,872
Mutual Funds - Fixed Income	16,752,761	16,160,800	14,232,614	14,263,089
Mutual Funds - Equities	28,619,494	29,121,967	22,716,090	24,692,254
Mutual Funds - Real Estate	1,205,785	1,223,996	1,137,998	1,194,408
Mutual Funds - Commodities	1,302,847	1,150,328	950,836	858,493
Private Placement LLP	-	-	2,281,634	2,381,799
Hedge Funds	627,626	687,996	627,626	693,031
Total	<u>\$ 50,479,639</u>	<u>\$ 50,316,213</u>	<u>\$ 44,784,724</u>	<u>\$ 46,921,000</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 3 INVESTMENTS (CONTINUED)

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

	2015	2014
Investments	\$ 46,959,804	\$ 44,249,596
Assets Held Under Charitable Trusts and Annuities	3,356,409	2,671,404
Total	\$ 50,316,213	\$ 46,921,000

Investment fees totaling \$168,553 and \$155,061 as of December 31, 2015 and 2014, respectively, are netted against interest and dividend income.

Investment (loss) gain is comprised of the following for the years ending December 31, 2015 and 2014:

	2015	2014
Interest and Dividend Income	\$ 952,135	\$ 896,409
Unrealized (Loss) Gain on Investments	(2,297,418)	332,934
Realized Gain on Sales of Investments	77,537	348,850
Total	\$ (1,267,746)	\$ 1,578,193

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, 2015:

	2015			Total
	Level 1	Level 2	Level 3	
<u>Investments</u>				
Cash and Money Market	\$ 1,940,439	\$ -	\$ -	\$ 1,940,439
Mutual Funds - Fixed income	15,332,814	-	-	15,332,814
Mutual Funds - Equities	27,358,967	-	-	27,358,967
Mutual Funds - Real Estate	1,086,186	-	-	1,086,186
Mutual Funds - Commodities	553,402	-	-	553,402
Hedge Funds	-	687,996	-	687,996
Total	46,271,808	687,996	-	46,959,804
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	30,687	-	-	30,687
Mutual Funds - Fixed income	827,986	-	-	827,986
Mutual Funds - Equities	1,763,000	-	-	1,763,000
Mutual Funds - Real Estate	137,810	-	-	137,810
Mutual Funds - Commodities	596,926	-	-	596,926
Total	3,356,409	-	-	3,356,409
Amounts Held for Others	-	-	(425,283)	(425,283)
	\$ 49,628,217	\$ 687,996	\$ (425,283)	\$ 49,890,930

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2014:

	2014			Total
	Level 1	Level 2	Level 3	
<u>Investments</u>				
Cash and Money Market	\$ 2,785,745	\$ -	\$ -	\$ 2,785,745
Equities	14,872	-	-	14,872
Mutual Funds - Fixed income	13,082,291	-	-	13,082,291
Mutual Funds - Equities	23,460,785	-	-	23,460,785
Mutual Funds - Real Estate	1,025,246	-	-	1,025,246
Mutual Funds - Commodities	805,827	-	-	805,827
Private Placement LLP	-	2,381,799	-	2,381,799
Hedge Funds	-	693,031	-	693,031
Total	41,174,766	3,074,830	-	44,249,596
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	37,309	-	-	37,309
Mutual Funds - Fixed Income	1,180,798	-	-	1,180,798
Mutual Funds - Equities	1,231,469	-	-	1,231,469
Mutual Funds - Real Estate	169,162	-	-	169,162
Mutual Funds - Commodities	52,666	-	-	52,666
Total	2,671,404	-	-	2,671,404
Amounts Held for Others	-	-	(416,865)	(416,865)
	<u>\$ 43,846,170</u>	<u>\$ 3,074,830</u>	<u>\$ (416,865)</u>	<u>\$ 46,504,135</u>

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, 2015 and 2014:

	<u>Amounts Held for Others</u>
Balance as of December 31, 2013	\$ (416,034)
Increase in Value	<u>(831)</u>
Balance as of December 31, 2014	(416,865)
Increase in Value	<u>(8,418)</u>
Balance as of December 31, 2015	<u>\$ (425,283)</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 and 2014:

	2015			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Funds - Aurora Offshore Ltd II	\$ 687,996	-	Quarterly	95 days
	2014			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Funds - First State Investments Global Emerging Markets Fund	\$ 2,381,799	-	Monthly	7 days
Hedge Funds - Aurora Offshore Ltd II	693,031	-	Quarterly	95 days

Aurora Offshore Ltd II – the investment objective is to generate consistent long-term capital appreciation with low volatility and little correlation with the equity and bond markets through a portfolio having a diversified risk portfolio.

First State Investments Global Emerging Markets Fund – the primary investment objective is to achieve long-term capital growth.

NOTE 5 PLEDGES RECEIVABLE

Promises to give at December 31, 2015 and 2014, 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 1.61% - 4.5%.

The amount of the discounted promises to give at December 31, 2015 and 2014, at the realized present value is reflected below:

	2015	2014
Receivables Due in One Year	\$ 6,588,354	\$ 5,581,117
Receivables Due in Two to Five Years	10,699,209	6,527,284
Receivables Due in More than Five Years	8,350,000	910,000
Total Pledges Receivable	<u>25,637,563</u>	<u>13,018,401</u>
Less:		
Discount to Reduce to Present Value	(1,304,084)	(419,104)
Allowance for Uncollectible Pledges	<u>(114,300)</u>	<u>(125,380)</u>
Net Pledges Receivable	<u>\$ 24,219,179</u>	<u>\$ 12,473,917</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6 LICENSE PLATE PROGRAMS

The Foundation has agreements with Florida, Illinois, and Arizona whereby a grant is received from the states for the purpose of the Foundation providing grants for scholarships for higher education. The Arizona license plate program started in 2015. There was no activity in the Arizona license plate program during the year ended December 31, 2015.

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 required to meet criteria that are different than the standard criteria of the Foundation.

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 representing approved scholarships were \$6,958 and \$7,218 at December 31, 2015 and 2014, respectively.

NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS AND ANNUITIES

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, 2015 and 2014, amounted to \$85,406 and \$97,564, 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 \$15,882 and \$23,301 at December 31, 2015 and 2014, 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, 2015 and 2014, amounted to \$636,838 and \$686,161, respectively. The liability under the Unitrust at December 31, 2015 and 2014, which represents the present value of the beneficiary's projected payments, using an assumed long-term rate of return on Unitrust assets of 6% and 8.4% at December 31, 2015 and 2014, respectively, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% and 3% at December 31, 2015 and 2014, respectively, and a risk-free discount rate of 4.91%, amounted to \$96,905 and \$143,611, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS AND ANNUITIES (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, 2015 and 2014, amounted to \$1,687,046 and \$1,887,679, respectively. The liability under the McCravey Unitrust, which represents the present value of the beneficiary's payments, discounted at a risk-free rate of 1.35%, amounted to \$304,450 and \$340,355 at December 31, 2015 and 2014, respectively.

The Foundation received assets in 2015 under two charitable gift annuities. These agreements represent an irrevocable transfer of investments to the Foundation. In return, the donors receive a promise from the Foundation to receive fixed installed payments (amounts vary per agreement) for the remainder of their lives. The investments in the split interest agreements are recorded at fair value when contributed and adjusted monthly to reflect changes in value and disbursements. The value of the related investments as of December 31, 2015 was \$947,119. The corresponding liability related to all future estimated payments to donors (actuarially determined based on life expectancy tables, estimated inflation and rates of return, etc.) has been recorded within obligations under charitable trusts and annuities in the accompanying statements of financial position. The balance as of December 31, 2015 was \$513,306.

NOTE 8 LINE OF CREDIT

In December 2014, the Foundation established an unsecured revolving line of credit with a maximum loan amount of \$1,000,000. The term is for one year and renewable annually. The current maturity date is December 20, 2016. The balance outstanding as of December 31, 2015 and 2014, is \$350,000 and \$250,000, respectively. The line of credit accrues interest at a rate equal to prime. At December 31, 2015 and 2014, the variable interest rate was 3.50% and 3.25%, respectively.

NOTE 9 AMOUNTS HELD FOR OTHERS

Amounts held for others represent funds held in a custodial capacity on behalf of others. The amounts relate to the Colonel Walter T. Short and Eleanor I. Short Scholarship Fund, established by the Will of Eleanor I. Short.

Investments and cash equivalents at December 31, 2015 and 2014, include \$425,283 and \$416,865, respectively, representing the principal of approximately \$109,000 and appreciation of \$316,283 and \$307,865 respectively, on the Short fund.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10 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 as 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% and 5%, respectively, 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 for the years ended December 31, 2015 and 2014.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10 ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2013	\$ -	\$ 7,679,098	\$ 30,645,147	\$ 38,324,245
Investment Gain	-	1,363,256	-	1,363,256
Contributions Collected	-	-	2,658,938	2,658,938
Appropriations	-	(1,385,283)	-	(1,385,283)
Reclassifications		<u>(140,570)</u>	<u>(381,298)</u>	<u>(521,868)</u>
Endowment Net Assets, December 31, 2014	-	7,516,501	32,922,787	40,439,288
Investment Loss	-	(792,209)	-	(792,209)
Contributions Collected	-	-	2,937,051	2,937,051
Appropriations	-	(1,106,870)	-	(1,106,870)
Deficiencies in Donor Restricted Endowment Funds	(21,946)	21,946	-	-
Reclassifications	<u>-</u>	<u>(97,426)</u>	<u>(337,008)</u>	<u>(434,434)</u>
Endowment Net Assets, December 31, 2015	<u>\$ (21,946)</u>	<u>\$ 5,541,942</u>	<u>\$ 35,522,830</u>	<u>\$ 41,042,826</u>
Endowment Net Assets, December 31, 2014			\$ 32,922,787	
Pledges Receivable, Net of Allowance			3,518,085	
Permanently Restricted Net Assets, December 31, 2014			<u>\$ 36,440,872</u>	
Endowment Net Assets, December 31, 2015			\$ 35,522,830	
Pledges Receivable, Net of Allowance			3,025,339	
Permanently Restricted Net Assets, December 31, 2015			<u>\$ 38,548,169</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 \$21,946 in donor-restricted endowment funds with deficiencies as of December 31, 2015. The Foundation determined that there were no donor-restricted endowment funds with deficiencies as of December 31, 2014.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 11 RELATED PARTIES

During the years ended December 31, 2015 and 2014, the Foundation received contributions from Board members totaling \$1,148,398 and \$3,549,758, respectively. Pledges receivable from Board members are \$2,964,239 and \$3,293,768 as of December 31, 2015 and 2014, respectively.

NOTE 12 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 \$115,303 and \$107,415 for the years ended December 31, 2015 and 2014, respectively.

NOTE 13 COMMITMENTS

Operating Lease

In May 2011 the Foundation entered into a non-cancellable operating lease for office space in Alexandria, Virginia that expires in 2022. 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, 2015 and 2014, were \$146,417 and \$142,647, respectively.

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

December 31,	Amount
2016	\$ 168,194
2017	172,399
2018	176,709
2019	181,126
2020	185,655
Thereafter	222,536
Total	\$ 1,106,619

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 13 COMMITMENTS (CONTINUED)

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, 2015, the Foundation commitment for liquidated damages totaled approximately \$614,000.



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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, 2015 and 2014, and have issued our report thereon dated July 28, 2016, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is presented for the 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 28, 2016

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships	\$ 6,740,297	\$ -	\$ -	\$ 6,740,297
Direct Events Expenses	3,646,334	-	-	3,646,334
Wages and Benefits	1,439,731	597,430	1,447,424	3,484,585
Legal Fees	-	100,667	13,866	114,533
Accounting Fees	-	72,026	-	72,026
Bad Debt Expense	-	23,263	-	23,263
Direct Mail	-	-	502,042	502,042
Other Professional Fees	144,829	102,383	222,806	470,018
Advertising and Promotion	116,125	389,642	161,078	666,845
Office Expenses	46,863	39,127	125,243	211,233
Information Technology	120,353	30,026	67,987	218,366
Occupancy	71,780	37,781	74,111	183,672
Travel	46,054	24,724	293,176	363,955
Meetings and Conferences	359,779	160,714	98,469	618,962
Depreciation	43,159	14,883	38,806	96,848
Insurance	-	32,170	-	32,170
Other Expense	-	1,779	227,015	228,794
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 12,775,304</u>	<u>\$ 1,626,615</u>	<u>\$ 3,272,024</u>	<u>\$ 17,673,943</u>