

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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.

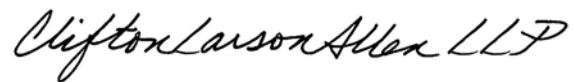
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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, 2016 and 2015, 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 12, 2017

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 7,982,787	\$ 6,946,138
Receivables	1,649	1,252
Accrued Interest Receivable	34,452	18,300
Prepaid Expenses	552,590	535,988
Investments	53,569,030	46,959,804
Pledges Receivable, Net of Allowance	22,615,380	24,219,179
Deposits	19,856	47,546
Cash Surrender Value of Life Insurance Policy	32,727	29,060
Beneficial Interest in Pooled Income Fund	49,241	47,939
Assets Held Under Charitable Trusts and Annuities	3,577,937	3,356,409
Property and Equipment:		
Furniture and Equipment	308,151	294,844
Leasehold Improvements	328,791	328,791
Software and Website Development	455,024	455,024
Total Property and Equipment	1,091,966	1,078,659
Less: Accumulated Depreciation and Amortization	870,168	779,644
Net Property and Equipment	221,798	299,015
 Total Assets	 \$ 88,657,447	 \$ 82,460,630
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 363,614	\$ 705,936
Scholarships Payable	251,834	241,208
Deferred Rent	253,938	289,651
Deferred Florida License Plate Program Revenue	102,560	122,956
Deferred Illinois License Plate Program Revenue	180,384	61,045
Line of Credit	-	350,000
Obligations Under Charitable Trusts and Annuities	898,848	930,543
Amounts Held for Others	-	425,283
Total Liabilities	2,051,178	3,126,622
NET ASSETS (DEFICIT)		
Unrestricted	1,086,837	(1,797,014)
Temporarily Restricted:		
Temporarily Restricted - Unrestricted Promises to Give for Operations Solely Restricted for Time of Receipt	10,565,753	9,437,000
Total Unrestricted and Temporarily Restricted Promises to Give	11,652,590	7,639,986
Temporarily Restricted - Purpose Restricted	32,600,452	33,145,853
Total Temporarily Restricted	43,166,205	42,582,853
Permanently Restricted	42,353,227	38,548,169
Total Net Assets	86,606,269	79,334,008
 Total Liabilities and Net Assets (Deficit)	 \$ 88,657,447	 \$ 82,460,630

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE, GAIN, AND OTHER SUPPORT								
Special Events	\$ 6,538,934	\$ 3,494,415	\$ 1,285,386	\$ 11,318,735	\$ 5,202,409	\$ 13,619,048	\$ 1,253,007	\$ 20,074,464
Contributions	4,164,957	1,002,711	2,400,328	7,567,996	2,819,214	7,710,677	1,249,929	11,779,820
Investment Gain (Loss)	588,242	3,625,009	1,302	4,214,553	(285,792)	(981,802)	(152)	(1,267,746)
Other Revenue - Florida License Plate Program	480,124	-	-	480,124	617,550	-	-	617,550
Other Revenue - Illinois License Plate Program	85,675	-	-	85,675	101,500	-	-	101,500
Other Revenue/Change in Values of Obligations Under Charitable Trusts	8	(58,760)	(22,258)	(81,010)	1,305	28,033	(58,479)	(29,141)
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	7,382,101	(7,382,101)	-	-	7,792,026	(7,792,026)	-	-
Total Revenue, Gain, and Other Support	19,240,041	681,274	3,664,758	23,586,073	16,248,212	12,583,930	2,444,305	31,276,447
EXPENSES								
Scholarships	8,840,289	-	-	8,840,289	9,128,970	-	-	9,128,970
Special Events	3,313,175	-	-	3,313,175	3,646,334	-	-	3,646,334
Total Program Expenses	12,153,464	-	-	12,153,464	12,775,304	-	-	12,775,304
General and Administrative	1,218,017	-	-	1,218,017	1,626,615	-	-	1,626,615
Fundraising	2,942,331	-	-	2,942,331	3,272,024	-	-	3,272,024
Total Expenses	16,313,812	-	-	16,313,812	17,673,943	-	-	17,673,943
CHANGE IN NET ASSETS	2,926,229	681,274	3,664,758	7,272,261	(1,425,731)	12,583,930	2,444,305	13,602,504
Net (Deficit) Assets - Beginning of Year	(1,797,014)	42,582,853	38,548,169	79,334,008	(662,217)	29,952,849	36,440,872	65,731,504
Reclassification of Net Assets	(42,378)	(97,922)	140,300	-	290,934	46,074	(337,008)	-
NET (DEFICIT) ASSETS - END OF YEAR	<u>\$ 1,086,837</u>	<u>\$ 43,166,205</u>	<u>\$ 42,353,227</u>	<u>\$ 86,606,269</u>	<u>\$ (1,797,014)</u>	<u>\$ 42,582,853</u>	<u>\$ 38,548,169</u>	<u>\$ 79,334,008</u>

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 7,272,261	\$ 13,602,504
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Permanently Restricted Contributions	(3,664,758)	(2,444,305)
Depreciation	92,629	96,848
Realized Gain on Sales of Investments	(3,361,878)	(77,537)
Unrealized Loss on Investments	384,738	2,297,418
Change in Assets and Liabilities:		
Receivables	(397)	73
Accrued Interest Receivable	(16,152)	18,057
Prepaid Expenses	(16,602)	(17,106)
Pledges Receivable	1,603,799	(11,745,262)
Deposits	27,690	(9,519)
Increase in Cash Surrender Value of Life Insurance Policy	(3,667)	(3,503)
Accounts Payable and Accrued Expenses	(342,322)	178,535
Scholarships Payable	10,626	58,240
Deferred Rent	(35,713)	(31,610)
Deferred Florida License Plate Program Revenue	(20,396)	(137,630)
Deferred Illinois License Plate Program Revenue	119,339	(66,488)
Amounts Held for Others	(425,283)	8,418
Other Liabilities	-	(2,300)
Net Cash Provided by Operating Activities	1,623,914	1,724,833
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(39,690,916)	(14,413,084)
Proceeds from Sales of Investments	35,837,302	8,797,989
Purchases of Property and Equipment	(15,412)	(3,048)
Net Cash Used in Investing Activities	(3,869,026)	(5,618,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) Receipts under Charitable Trusts and Annuities	(31,695)	423,276
Permanently Restricted Contributions	3,664,758	2,444,305
Line of Credit (Repayment) Advancement	(350,000)	100,000
Change in Beneficial Interest in Pooled Income Fund	(1,302)	152
Net Cash Provided by Financing Activities	3,281,761	2,967,733
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,036,649	(925,577)
Cash and Cash Equivalents - Beginning of Year	6,946,138	7,871,715
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,982,787	\$ 6,946,138
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Receipt of Donated Stock	\$ 529,395	\$ 1,924,179

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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-one 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 collectability. 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, 2016 AND 2015

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 \$34,600 and \$114,300 as of December 31, 2016 and 2015, 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, 2016 AND 2015

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, 2016 and 2015, balances were \$1,086,837 and (\$3,019,208), respectively. At December 31, 2016 and 2015, there were \$10,565,753 and \$9,437,000, respectively, in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included in the December 31, 2016 and 2015, 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, balance was \$664,697. The remaining balance represents large bequests that the Board designated in 2016 and 2015 to fund program scholarships in future years. The December 31, 2015, balance was \$579,443. As approved in the September 2016 Board meeting, all Board designated funds were released.

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, balance was (\$21,946). The value of the endowment funds once again exceeded the corpus at December 31, 2016.

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, 2016 and 2015, 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, 2016 AND 2015

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, 2016 and 2015, the Foundation awarded 2,332 and 2,323 scholarships totaling \$7,276,390 and \$7,034,000, respectively, for use during the 2016-2017 and 2015-2016 academic years. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense at December 31, 2016 and 2015, was \$8,840,289 and \$9,128,970, including an allocation of indirect costs of \$1,990,189 and \$2,388,674, 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, 2016 AND 2015

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, 2016 AND 2015

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 12, 2017, 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, 2016 and 2015, investments consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 671,807	\$ 671,807	\$ 1,971,126	\$ 1,971,126
Equities	2,499	2,517	-	-
Mutual Funds - Fixed Income	10,529,399	10,441,954	15,130,612	14,574,301
ETF - Fixed Income	8,009,161	8,026,310	1,622,149	1,586,499
Mutual Funds - Equities	15,409,744	14,849,625	28,619,494	29,121,967
ETF - Equities	19,640,215	19,676,500	363,347	465,164
Mutual Funds - Real Estate	1,235,366	1,240,230	1,205,785	1,223,996
ETF - Commodities	2,123,284	2,184,551	939,500	685,164
Hedge Funds	53,839	53,473	627,626	687,996
Total	<u>\$ 57,675,314</u>	<u>\$ 57,146,967</u>	<u>\$ 50,479,639</u>	<u>\$ 50,316,213</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 INVESTMENTS (CONTINUED)

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

	2016	2015
Investments	\$ 53,569,030	\$ 46,959,804
Assets Held Under Charitable Trusts and Annuities	3,577,937	3,356,409
Total	\$ 57,146,967	\$ 50,316,213

Investment fees totaling \$154,967 and \$168,553 as of December 31, 2016 and 2015, respectively, are netted against interest and dividend income.

Investment gain (loss) is comprised of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and Dividend Income	\$ 1,237,413	\$ 952,135
Unrealized Loss on Investments	(384,738)	(2,297,418)
Realized Gain on Sales of Investments	3,361,878	77,537
Total	\$ 4,214,553	\$ (1,267,746)

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, 2016:

	2016			Total
	Level 1	Level 2	Level 3	
<u>Investments</u>				
Cash and Money Market	\$ 610,291	\$ -	\$ -	\$ 610,291
Equities	2,517	-	-	2,517
Mutual Funds - Fixed income	9,841,666	-	-	9,841,666
ETF - Fixed income	7,800,962	-	-	7,800,962
Mutual Funds - Equities	13,017,125	-	-	13,017,125
ETF - Equities	19,152,006	-	-	19,152,006
Mutual Funds - Real Estate	1,102,416	-	-	1,102,416
ETF - Commodities	1,988,574	-	-	1,988,574
Hedge Funds	-	53,473	-	53,473
Total	53,515,557	53,473	-	53,569,030
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	61,516	-	-	61,516
Mutual Funds - Fixed income	600,288	-	-	600,288
ETF - Fixed income	225,348	-	-	225,348
Mutual Funds - Equities	1,832,501	-	-	1,832,501
ETF - Equities	524,493	-	-	524,493
Mutual Funds - Real Estate	137,814	-	-	137,814
ETF - Commodities	195,977	-	-	195,977
Total	3,577,937	-	-	3,577,937
	\$ 57,093,494	\$ 53,473	\$ -	\$ 57,146,967

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 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	14,019,913	-	-	14,019,913
ETF - Fixed income	1,312,901	-	-	1,312,901
Mutual Funds - Equities	27,358,967	-	-	27,358,967
Mutual Funds - Real Estate	1,086,186	-	-	1,086,186
ETF - 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	554,389	-	-	554,389
ETF - Fixed income	273,597	-	-	273,597
Mutual Funds - Equities	1,763,000	-	-	1,763,000
ETF - Equities	465,164	-	-	465,164
Mutual Funds - Real Estate	137,810	-	-	137,810
ETF - Commodities	131,762	-	-	131,762
Total	3,356,409	-	-	3,356,409
Amounts Held for Others	-	-	(425,283)	(425,283)
	<u>\$ 49,628,217</u>	<u>\$ 687,996</u>	<u>\$ (425,283)</u>	<u>\$ 49,890,930</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, 2016 and 2015:

	Amounts Held for Others
Balance as of December 31, 2014	\$ (416,865)
Increase in Value	(8,418)
Balance as of December 31, 2015	(425,283)
Increase in Value	(33,316)
Transfer	458,599
Balance as of December 31, 2016	<u>\$ -</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015:

	2016			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Funds - Aurora Offshore Ltd II	\$ 53,473	-	Quarterly	95 days
	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

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.

NOTE 5 PLEDGES RECEIVABLE

Promises to give at December 31, 2016 and 2015, 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 1.34% - 2.04%.

The amount of the discounted promises to give at December 31, 2016 and 2015, at the realized present value is reflected below:

	2016	2015
Receivables Due in One Year	\$ 5,775,236	\$ 6,588,354
Receivables Due in Two to Five Years	10,296,245	10,699,209
Receivables Due in More than Five Years	7,800,000	8,350,000
Total Pledges Receivable	<u>23,871,481</u>	<u>25,637,563</u>
Less:		
Discount to Reduce to Present Value	(1,221,501)	(1,304,084)
Allowance for Uncollectible Pledges	<u>(34,600)</u>	<u>(114,300)</u>
Net Pledges Receivable	<u>\$ 22,615,380</u>	<u>\$ 24,219,179</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 LICENSE PLATE PROGRAMS

The Foundation has agreements with Florida and Illinois whereby a grant is received from the states for the purpose of the Foundation providing grants for scholarships for higher education. In addition, the Arizona license plate program started in 2015 and receives support for unrestricted revenue. During the year ended December 31, 2016, the Foundation received \$23,324 from the State of Arizona, representing license plate funds generated between August and December 2015. None of this transfer was considered revenue, since the amount did not exceed the deposit paid by the Foundation to the State of Arizona in the amount of \$32,000 in April 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 \$22,191 and \$6,958 at December 31, 2016 and 2015, 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, 2016 and 2015, amounted to \$84,084 and \$85,406 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 \$8,121 and \$15,882 at December 31, 2016 and 2015, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS AND ANNUITIES (CONTINUED)

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, 2016 and 2015, amounted to \$695,343 and \$636,838, respectively. The liability under the Unitrust at December 31, 2016 and 2015, which represents the present value of the beneficiary's projected payments, using an assumed long-term rate of return on Unitrust assets of 6% at December 31, 2016 and 2015, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% at December 31, 2016 and 2015, and a risk-free discount rate of 4.91%, amounted to \$99,004 and \$96,905, 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, 2016 and 2015, amounted to \$1,753,455 and \$1,687,046, 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 \$242,236 and \$304,450 at December 31, 2016 and 2015, 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, 2016 and 2015, was \$1,045,055 and \$947,119, respectively. 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, 2016 and 2015, was \$549,487 and \$513,306, respectively.

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 15, 2017. The balance outstanding as of December 31, 2016 and 2015, is \$-0- and \$350,000, respectively. The line of credit accrues interest at a rate equal to LIBOR + 2.75%. At December 31, 2016 and 2015, the variable interest rate was 3.45% and 3.50%, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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. After extensive research and discussion, the fund was approved to be moved from liability to endowment available for scholarship spending. Board meeting minutes incorrectly reflected this and an updated memo has been prepared and approved as of the April 8, 2017, board meeting. Since the intent was that the funds move to endowment, this change has been made in the Foundation's accounting records as of December 31, 2016.

The liability balance is \$0 as of December 31, 2016. The investment remains in its segregated fund, but will be transferred into the main investment account after documents are finalized in the Spring 2017 board meeting. Investments and cash equivalents at December 31, 2016 and 2015, include \$456,499 and \$425,283, respectively, representing the principal of \$108,988 and appreciation of \$349,626 and \$316,283, respectively, on the Colonel Walter T. Short and Eleanor I. Short Scholarship Fund.

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% of a moving three-year average of the fair value of all endowed funds as of the close of each fiscal year included in such moving average for the years ended December 31, 2016 and 2015.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 10 ENDOWMENT (CONTINUED)

Except as specifically directed otherwise by a particular donor in the instrument governing a donation or a fund, the annual amount that may be spent from each endowment fund (the "Spending Amount"), after payment of its allocable share of general investment and administrative expenses of the endowment, shall be a percentage (the "Spending Percentage") of a trailing three-year average of the fair value of each endowment fund, determined as of the last day of each fiscal year. For the first fiscal year of a fund, there shall be no spending from the fund unless directed otherwise by the donor. For the second fiscal year of a fund, the Spending Amount shall be the Spending Percentage of the preceding fiscal year-end fair value of the fund; and for the third fiscal year of a fund, the Spending Amount shall be the Spending Percentage of the average of the two preceding fiscal year-end fair values of the fund. For subsequent fiscal years, the Spending Amount shall be the Spending Percentage of the average of the three preceding fiscal year-end fair values of the fund. The Spending Percentage currently is four percent, and it shall be reviewed and set by the Foundation's Finance and Investment Committee each fall for the following fiscal year.

With respect to all endowment funds created by pledge agreements that do not include an allocation to general operating support of the Foundation and that are not charged a "management fee," and all endowment funds with no written agreement, 80 basis points of the fair value as defined in the previous paragraph shall be used for direct expenses of operating the Foundation's scholarship program. The balance of the Spending Amount of each fund will be spent on scholarships within the guidelines of the specific fund. Any portion of the Spending Amount for any fund not spent in a particular year shall remain a part of the fund.

At the Foundation's discretion, and as consistent with the Virginia Uniform Prudent Management of Institutional Funds Act, scholarships may be awarded every year from the Spending Amount even if the individual endowment fund's balance is below its initial value. This applies to all endowment funds, including endowment funds with no written agreement.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 10 ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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	(21,946)	5,541,942	35,522,830	41,042,826
Investment Gain	-	2,983,272	-	2,983,272
Contributions Collected	-	-	3,599,040	3,599,040
Appropriations	-	(1,179,715)	-	(1,179,715)
Reclassifications	<u>21,946</u>	<u>384,601</u>	<u>140,300</u>	<u>546,847</u>
Endowment Net Assets, December 31, 2016	<u>\$ -</u>	<u>\$ 7,730,100</u>	<u>\$ 39,262,170</u>	<u>\$ 46,992,270</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>	
Endowment Net Assets, December 31, 2016			\$ 39,262,170	
Pledges Receivable, Net of Allowance			3,091,057	
Permanently Restricted Net Assets, December 31, 2016			<u>\$ 42,353,227</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 had \$21,946 in donor-restricted endowment funds with deficiencies as of December 31, 2015. The value of these funds exceeded the corpus at December 31, 2016.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 11 RELATED PARTIES

During the years ended December 31, 2016 and 2015, the Foundation received contributions from Board members totaling \$3,360,948 and \$1,148,398, respectively. Pledges receivable from Board members are \$2,841,921 and \$2,964,239, as of December 31, 2016 and 2015, 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 \$117,230 and \$115,303 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, were \$145,157 and \$146,417, respectively.

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

December 31,	Amount
2017	\$ 172,399
2018	176,709
2019	181,126
2020	185,655
2021	190,296
Thereafter	32,240
Total	\$ 938,425

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016, the Foundation commitment for liquidated damages totaled approximately \$580,000.



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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, 2016 and 2015, and have issued our report thereon dated July 12, 2017, 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 12, 2017

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships	\$ 6,850,100	\$ -	\$ -	\$ 6,850,100
Direct Events Expenses	3,313,175	-	-	3,313,175
Wages and Benefits	1,396,479	500,887	1,404,872	3,302,238
Legal Fees	-	91,469	14,312	105,781
Accounting Fees	-	73,270	-	73,270
Bad Debt Expense	-	7,100	-	7,100
Direct Mail	-	-	408,970	408,970
Other Professional Fees	99,014	100,393	286,231	485,638
Advertising and Promotion	33,966	137,383	63,096	234,445
Office Expenses	54,772	48,732	137,382	240,886
Information Technology	90,855	25,056	70,086	185,997
Occupancy	69,006	32,242	66,719	167,967
Travel	32,854	41,663	263,057	337,574
Meetings and Conferences	172,949	97,341	78,967	349,257
Depreciation	40,294	13,894	38,441	92,629
Insurance	-	43,960	-	43,960
Other Expense	-	4,627	110,198	114,825
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 12,153,464</u>	<u>\$ 1,218,017</u>	<u>\$ 2,942,331</u>	<u>\$ 16,313,812</u>