

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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 audits 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, 2017 and 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 20, 2018

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 11,948,590	\$ 7,982,787
Receivables	337	1,649
Accrued Interest Receivable	75,681	34,452
Prepaid Expenses	567,264	552,590
Investments	65,796,044	53,569,030
Pledges Receivable, Net of Allowance	28,152,201	22,615,380
Deposits	12,614	19,856
Cash Surrender Value of Life Insurance Policy	36,563	32,727
Beneficial Interest in Pooled Income Fund	50,378	49,241
Assets Held Under Charitable Trusts and Annuities	4,620,607	3,577,937
Property and Equipment:		
Furniture and Equipment	493,086	308,151
Leasehold Improvements	328,791	328,791
Software and Website Development	304,908	455,024
Total Property and Equipment	1,126,785	1,091,966
Less: Accumulated Depreciation and Amortization	931,706	870,168
Net Property and Equipment	195,079	221,798
 Total Assets	 \$ 111,455,358	 \$ 88,657,447
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 198,976	\$ 363,614
Scholarships Payable (Net of Allowance)	161,918	251,834
Deferred Rent	214,020	253,938
Deferred Florida License Plate Program Revenue	95,746	102,560
Deferred Illinois License Plate Program Revenue	275,967	180,384
Obligations Under Charitable Trusts and Annuities	1,053,978	898,848
Total Liabilities	2,000,605	2,051,178
NET ASSETS		
Unrestricted:		
Undesignated	7,447,141	1,086,837
Board Designated	3,000,000	-
Temporarily Restricted:		
Temporarily Restricted - Unrestricted Promises to Give for Operations Solely Restricted for Time of Receipt	7,605,971	10,565,753
Total Unrestricted and Temporarily Restricted Promises to Give	18,053,112	11,652,590
Temporarily Restricted - Purpose Restricted	44,723,157	32,600,452
Total Temporarily Restricted	52,329,128	43,166,205
Permanently Restricted	46,678,484	42,353,227
Total Net Assets	109,454,753	86,606,269
 Total Liabilities and Net Assets	 \$ 111,455,358	 \$ 88,657,447

See accompanying Notes to Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE, GAIN, AND OTHER SUPPORT								
Special Events	\$ 6,031,450	\$ 7,187,153	\$ 858,707	\$ 14,077,310	\$ 6,541,434	\$ 3,494,415	\$ 1,285,386	\$ 11,321,235
Contributions	7,653,650	3,499,955	3,314,910	14,468,515	4,162,457	1,002,711	2,400,328	7,565,496
Investment Income	1,350,159	8,045,031	1,137	9,396,327	588,242	3,625,009	1,302	4,214,553
Other Revenue - Florida License Plate Program	499,866	-	-	499,866	480,124	-	-	480,124
Other Revenue - Illinois License Plate Program	64,435	-	-	64,435	85,675	-	-	85,675
Other Revenue - Arizona License Plate Program	51,324	-	-	51,324	-	-	-	-
Other Revenue/Change in Values of Obligations Under Charitable Trusts	110,387	21,450	140,690	272,527	8	(58,760)	(22,258)	(81,010)
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	9,440,289	(9,440,289)	-	-	7,382,101	(7,382,101)	-	-
Total Revenue, Gain, and Other Support	25,201,560	9,313,300	4,315,444	38,830,304	19,240,041	681,274	3,664,758	23,586,073
EXPENSES								
Scholarships	8,953,534	-	-	8,953,534	8,840,289	-	-	8,840,289
Special Events	3,190,739	-	-	3,190,739	3,313,175	-	-	3,313,175
Total Program Expenses	12,144,273	-	-	12,144,273	12,153,464	-	-	12,153,464
General and Administrative	1,420,068	-	-	1,420,068	1,218,017	-	-	1,218,017
Fundraising	2,417,479	-	-	2,417,479	2,942,331	-	-	2,942,331
Total Expenses	15,981,820	-	-	15,981,820	16,313,812	-	-	16,313,812
CHANGE IN NET ASSETS	9,219,740	9,313,300	4,315,444	22,848,484	2,926,229	681,274	3,664,758	7,272,261
Net (Deficit) Assets - Beginning of Year	1,086,837	43,166,205	42,353,227	86,606,269	(1,797,014)	42,582,853	38,548,169	79,334,008
Reclassification of Net Assets	140,564	(150,377)	9,813	-	(42,378)	(97,922)	140,300	-
NET ASSETS - END OF YEAR	<u>\$ 10,447,141</u>	<u>\$ 52,329,128</u>	<u>\$ 46,678,484</u>	<u>\$ 109,454,753</u>	<u>\$ 1,086,837</u>	<u>\$ 43,166,205</u>	<u>\$ 42,353,227</u>	<u>\$ 86,606,269</u>

See accompanying Notes to Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 22,848,484	\$ 7,272,261
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Permanently Restricted Contributions	(4,315,444)	(3,664,758)
Depreciation	76,954	92,629
Realized Gain on Sales of Investments	(2,167,912)	(3,361,878)
Unrealized (Gain) Loss on Investments	(5,770,762)	384,738
Change in Assets and Liabilities:		
Receivables	1,312	(397)
Accrued Interest Receivable	(41,229)	(16,152)
Prepaid Expenses	(14,674)	(16,602)
Pledges Receivable	(5,536,821)	1,603,799
Deposits	7,242	27,690
Increase in Cash Surrender Value of Life Insurance Policy	(3,836)	(3,667)
Accounts Payable and Accrued Expenses	(164,638)	(342,322)
Scholarships Payable	(89,916)	10,626
Deferred Rent	(39,918)	(35,713)
Deferred Florida License Plate Program Revenue	(6,814)	(20,396)
Deferred Illinois License Plate Program Revenue	95,583	119,339
Amounts Held for Others	-	(425,283)
Net Cash Provided by Operating Activities	4,877,611	1,623,914
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(54,837,295)	(39,690,916)
Proceeds from Sales of Investments	49,506,285	35,837,302
Purchases of Property and Equipment	(50,235)	(15,412)
Net Cash Used by Investing Activities	(5,381,245)	(3,869,026)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts (Payments) under Charitable Trusts and Annuities	155,130	(31,695)
Permanently Restricted Contributions	4,315,444	3,664,758
Line of Credit Repayment	-	(350,000)
Change in Beneficial Interest in Pooled Income Fund	(1,137)	(1,302)
Net Cash Provided by Financing Activities	4,469,437	3,281,761
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,965,803	1,036,649
Cash and Cash Equivalents - Beginning of Year	7,982,787	6,946,138
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,948,590	\$ 7,982,787
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Receipt of Donated Stock	\$ 3,698,716	\$ 529,395

See accompanying Notes to Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 twenty-six 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 accounting principles generally accepted in the United States of America 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 \$75,000 and \$34,600 as of December 31, 2017 and 2016, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, balances were \$7,447,141 and \$1,086,837, respectively. At December 31, 2017 and 2016, there were \$7,605,971 and \$10,565,753, respectively, in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included in the December 31, 2017 and 2016, 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: From time to time, the Board of Directors of the Foundation may designate unrestricted net assets for the purposes of building and maintaining an adequate level to support the Foundation's day-to-day operations in the event of unforeseen, emergency working capital shortfalls. The Board Designated Net Assets, known as the Operating Reserve, will be reviewed on an annual basis and will be funded and available in cash or cash equivalents. The reserve was created in the current year. At December 31, 2017, Board Designated Net Assets was \$3,000,000.

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, 2017 and 2016, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, the Foundation awarded 2,300 and 2,332 scholarships totaling \$7,474,750 and \$7,276,390, respectively, for use during the 2017-2018 and 2016-2017 academic years. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense at December 31, 2017 and 2016, was \$8,953,534 and \$8,840,289, including an allocation of indirect costs of \$1,814,677 and \$1,990,189, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

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. Fair value refers to the price that would be received upon selling an asset or the price paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. In accordance with US GAAP, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable is permitted to measure the fair value of such investments on the basis of that NAV or its equivalent without adjustment.

Management uses its best judgment in estimating the fair value of the Foundation's investments including its consideration of the use of NAV as a practical expedient. There are inherent limitations in any estimation technique. Because the inherent uncertainty of valuation, this estimated fair value may differ from the value that would have been used had a ready market for such investments existed, and the difference could be significant.

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 nonactive markets.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Recent Accounting Pronouncement

The Foundation adopted the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (the ASU), for the year ended December 31, 2017. The adoption of the ASU did not have an impact on its statements of financial position, activities, and cash flows.

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 reported change in net assets.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 20, 2018, 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.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 INVESTMENTS

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

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 1,856,989	\$ 1,856,989	\$ 671,807	\$ 671,807
Equities	-	-	2,499	2,517
Mutual Funds - Fixed Income	17,123,633	17,227,185	10,529,399	10,441,954
ETF - Fixed Income	11,383,220	11,396,386	8,009,161	8,026,310
Mutual Funds - Equities	4,498,967	5,370,430	15,409,744	14,849,625
ETF - Equities	26,665,087	30,440,343	19,640,215	19,676,500
Mutual Funds - Real Estate	997,760	1,102,042	1,235,366	1,240,230
ETF - Commodities	2,643,675	3,018,637	2,123,284	2,184,551
Hedge Funds	4,905	4,639	53,839	53,473
Total	<u>\$ 65,174,236</u>	<u>\$ 70,416,651</u>	<u>\$ 57,675,314</u>	<u>\$ 57,146,967</u>

The estimated fair value of the Foundation's interests in hedge funds is based on valuations provided by the external investment managers using the NAV or its equivalent as a practical expedient to determine the fair value of the underlying investments which do not have a readily determinable fair value.

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

	2017	2016
Investments	\$ 65,796,044	\$ 53,569,030
Assets Held Under Charitable Trusts and Annuities	4,620,607	3,577,937
Total	<u>\$ 70,416,651</u>	<u>\$ 57,146,967</u>

Investment fees totaling \$180,048 and \$154,967 as of December 31, 2017 and 2016, respectively, are netted against interest and dividend income.

Investment gain is comprised of the following for the years ended December 31:

	2017	2016
Interest and Dividend Income	\$ 1,457,653	\$ 1,237,413
Unrealized Gain (Loss) on Investments	5,770,762	(384,738)
Realized Gain on Sales of Investments	2,167,912	3,361,878
Total	<u>\$ 9,396,327</u>	<u>\$ 4,214,553</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 FAIR VALUE MEASUREMENTS

The following is a summary of the fair value measurements of the Foundation's investments within the fair value hierarchy, with a disclosure of the investments measured at NAV to allow reconciliation to the statements of financial position as of December 31, 2017:

	2017			Total
	Level 1	Level 2	Level 3	
<u>Investments</u>				
Cash and Money Market	\$ 1,806,358	\$ -	\$ -	\$ 1,806,358
Mutual Funds - Fixed income	16,436,618	-	-	16,436,618
ETF - Fixed income	11,162,629	-	-	11,162,629
Mutual Funds - Equities	2,839,752	-	-	2,839,752
ETF - Equities	29,877,100	-	-	29,877,100
Mutual Funds - Real Estate	964,436	-	-	964,436
ETF - Commodities	2,704,512	-	-	2,704,512
	<u>65,791,405</u>	-	-	<u>65,791,405</u>
Investments Measured at NAV:				
Hedge Funds				4,639
Total				<u>65,796,044</u>
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	50,631	-	-	50,631
Mutual Funds - Fixed income	790,567	-	-	790,567
ETF - Fixed income	233,757	-	-	233,757
Mutual Funds - Equities	2,530,678	-	-	2,530,678
ETF - Equities	563,243	-	-	563,243
Mutual Funds - Real Estate	137,606	-	-	137,606
ETF - Commodities	314,125	-	-	314,125
Total	<u>4,620,607</u>	-	-	<u>4,620,607</u>
Total Investments	<u>\$ 70,412,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,416,651</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a summary of the fair value measurements of the Foundation's investments within the fair value hierarchy, with a disclosure of the investments measured at NAV to allow reconciliation to the statements of financial position 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
	<u>53,515,557</u>	-	-	<u>53,515,557</u>
Investments Measured at NAV:				
Hedge Funds				53,473
Total				<u>53,569,030</u>
<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
	<u>3,577,937</u>	-	-	<u>3,577,937</u>
Total	<u>\$ 57,093,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,146,967</u>

In accordance with ASC subtopic 820-10, certain investments are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The investment objective of the Aurora Offshore Ltd II Hedge Fund 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. Redemptions could generally be made as of the end of any calendar quarter upon 95 days' prior written notice to the Administrator.

There are no unfunded future commitments at either December 31, 2017 or 2016.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 PLEDGES RECEIVABLE

Promises to give at December 31, 2017 and 2016, 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 at the realized present value is reflected below:

	2017	2016
Receivables Due in One Year	\$ 813,486	\$ 5,775,236
Receivables Due in Two to Five Years	20,859,188	10,296,245
Receivables Due in More than Five Years	7,798,239	7,800,000
Total Pledges Receivable	<u>29,470,913</u>	<u>23,871,481</u>
Less:		
Discount to Reduce to Present Value	(1,243,712)	(1,221,501)
Allowance for Uncollectible Pledges	<u>(75,000)</u>	<u>(34,600)</u>
Net Pledges Receivable	<u>\$ 28,152,201</u>	<u>\$ 22,615,380</u>

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, 2017, the Foundation received \$60,000 from the state of Arizona. \$51,324 was considered revenue, the amount that exceeded the \$32,000 deposit paid by the Foundation to the state of Arizona 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 \$27,008 and \$22,191 at December 31, 2017 and 2016, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 occurred in 2017. The funds remaining at the termination of the Trust were transferred to a temporarily restricted scholarship fund in the name of Captain Darrell Scott Tipples, USMC Memorial Scholarship, used to fund memorial scholarships, in accordance with the trust agreement. The assets of the Trust at the time of the transfer amounted to \$86,394.

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, 2017 and 2016, amounted to \$778,317 and \$695,343, respectively. The liability under the Unitrust at December 31, 2017 and 2016, 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, 2017 and 2016, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% at December 31, 2017 and 2016, and a risk-free discount rate of 4.91%, amounted to \$96,674 and \$99,004, 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 life beneficiary passed away on August 28, 2017. At December 31, 2017, the termination of the trust was still in progress. The assets of the McCravey Unitrust, which are included in the accompanying statements of financial position at December 31, 2017 and 2016, amounted to \$1,963,354 and \$1,753,455, respectively. The liability under the McCravey Unitrust, which represents the remaining payment to be released in 2018, amounted to \$57,544.

The Foundation began receiving assets under charitable gift annuities in 2015. 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, 2017 and 2016 was \$1,878,936 and \$1,045,055, 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, 2017 and 2016, was \$899,760 and \$549,487, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 10, 2018. There were no outstanding balances at December 31, 2017 and 2016. The line of credit accrues interest at a rate equal to LIBOR + 2.75%. At December 31, 2017 and 2016, the variable interest rate was 4.19% and 3.45%, respectively.

NOTE 9 ENDOWMENT

The Foundation has donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (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, 2017 and 2016.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 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 FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 9 ENDOWMENT (CONTINUED)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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	-	7,730,100	39,262,170	46,992,270
Investment Gain	-	6,330,436	-	6,330,436
Contributions Collected	-	-	3,172,817	3,172,817
Appropriations	-	(1,168,382)	-	(1,168,382)
Reclassifications	<u>-</u>	<u>(645,486)</u>	<u>9,813</u>	<u>(635,673)</u>
Endowment Net Assets, December 31, 2017	<u>\$ -</u>	<u>\$ 12,246,668</u>	<u>\$ 42,444,800</u>	<u>\$ 54,691,468</u>
Endowment Net Assets, December 31, 2016			\$ 39,262,170	
Pledges Receivable, Net of Allowance			<u>3,091,057</u>	
Permanently Restricted Net Assets, December 31, 2016			<u>\$ 42,353,227</u>	
Endowment Net Assets, December 31, 2017			\$ 42,444,800	
Pledges Receivable, Net of Allowance			<u>4,233,684</u>	
Permanently Restricted Net Assets, December 31, 2017			<u>\$ 46,678,484</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 no donor-restricted endowment funds with deficiencies as of December 31, 2017 and 2016.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 10 RELATED PARTIES

During the years ended December 31, 2017 and 2016, the Foundation received contributions from Board members totaling \$785,036 and \$1,918,989, respectively. Pledges receivable from Board members are \$1,780,000 and \$2,841,921 as of December 31, 2017 and 2016, respectively.

NOTE 11 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 at least 1,000 hours of service. Contributions to the Plan by the Foundation amounted to \$105,763 and \$117,230 for the years ended December 31, 2017 and 2016, respectively.

NOTE 12 COMMITMENTS

Operating Lease

In May 2011, the Foundation entered into a non-cancellable operating lease for office space in Alexandria, Virginia that expires in 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, 2017 and 2016, were \$146,908 and \$145,157, respectively.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 176,709
2019	181,126
2020	185,655
2021	190,296
2022	32,240
Total	<u>\$ 766,026</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 12 COMMITMENTS (CONTINUED)

Other 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, 2017, the Foundation commitment for liquidated damages totaled approximately \$613,000.

The Foundation also entered into an agreement for the production and exhibition of a videotaped golf program to raise awareness of the Foundation's mission. At December 31, 2017, the agreement commits the Foundation to pay \$480,000 in 2018.



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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, 2017 and 2016, and have issued our report thereon dated June 20, 2018, 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
June 20, 2018

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships	\$ 7,138,857	\$ -	\$ -	\$ 7,138,857
Direct Events Expenses	3,190,739	-	-	3,190,739
Wages and Benefits	1,257,803	486,972	1,203,303	2,948,078
Legal Fees	-	60,723	14,155	74,878
Accounting Fees	-	102,216	-	102,216
Bad Debt Expense	-	75,000	-	75,000
Direct Mail	-	-	152,086	152,086
Other Professional Fees	130,186	95,815	264,660	490,661
Advertising and Promotion	59,381	299,796	214,567	573,744
Office Expenses	36,269	27,035	122,580	185,884
Information Technology	93,358	30,035	74,915	198,308
Occupancy	73,430	31,256	70,314	175,000
Travel	30,345	35,993	168,867	235,205
Meetings and Conferences	100,430	109,584	50,685	260,699
Depreciation	33,475	11,543	31,936	76,954
Insurance	-	50,081	-	50,081
Other Expense	-	4,019	49,411	53,430
	<u>-</u>	<u>4,019</u>	<u>49,411</u>	<u>53,430</u>
Total	<u>\$ 12,144,273</u>	<u>\$ 1,420,068</u>	<u>\$ 2,417,479</u>	<u>\$ 15,981,820</u>