

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SIX-MONTH PERIOD ENDED JUNE 30, 2018**

**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 statement of financial position as of June 30, 2018, the related statements of activities and cash flows for the six-month period 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 audit. We conducted our audit 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 financial position of the Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
April 8, 2019

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

**ASSETS**

Cash and Cash Equivalents	\$ 8,970,900
Receivables	829
Accrued Interest Receivable	85,566
Prepaid Expenses	739,516
Investments	74,020,084
Pledges Receivable	26,346,662
Deposits	12,614
Cash Surrender Value of Life Insurance Policy	35,491
Beneficial Interest in Pooled Income Fund	51,101
Assets Held Under Charitable Trusts and Annuities	2,874,183
Property and Equipment:	
Furniture and Equipment	459,038
Leasehold Improvements	328,791
Software and Website Development	304,908
Total Property and Equipment	<u>1,092,737</u>
Less: Accumulated Depreciation and Amortization	<u>931,225</u>
Net Property and Equipment	<u>161,512</u>
 Total Assets	 <u><u>\$ 113,298,458</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 362,456
Scholarships Payable (Net of Allowance)	6,950,508
Deferred Rent	192,637
Deferred Florida License Plate Program Revenue	187,491
Deferred Illinois License Plate Program Revenue	300,981
Obligations Under Charitable Trusts and Annuities	<u>1,154,480</u>
Total Liabilities	<u>9,148,553</u>

**NET ASSETS**

Unrestricted:	
Undesignated	7,291,758
Board Designated	<u>3,000,000</u>
Total Unrestricted	10,291,758
Temporarily Restricted:	
Temporarily Restricted - Unrestricted Promises to Give for Operations Solely Restricted for Time of Receipt	<u>7,259,457</u>
Total Unrestricted and Temporarily Restricted Promises to Give	17,551,215
Temporarily Restricted - Purpose Restricted	<u>39,204,400</u>
Total Temporarily Restricted	46,463,857
Permanently Restricted	<u>47,394,290</u>
Total Net Assets	<u>104,149,905</u>
 Total Liabilities and Net Assets	 <u><u>\$ 113,298,458</u></u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**SIX-MONTH PERIOD ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>REVENUE, GAIN, AND OTHER SUPPORT</b>				
Special Events	\$ 2,759,423	\$ 2,760,475	\$ 449,518	\$ 5,969,416
Contributions	609,873	485,406	50,624	1,145,903
Investment Loss	(59,371)	(493,264)	-	(552,635)
Other Revenue - Florida License Plate Program	59,000	-	-	59,000
Other Revenue - Arizona License Plate Program	70,000	-	-	70,000
Other Revenue/Change in Values of Obligations Under Charitable Trusts	48,717	(22,607)	723	26,833
Net Assets Released from Restrictions:				
Satisfaction of Program and Time Restrictions	1,681,539	(1,681,539)	-	-
Total Revenue, Gain, and Other Support	<u>5,169,181</u>	<u>1,048,471</u>	<u>500,865</u>	<u>6,718,517</u>
<b>EXPENSES</b>				
Scholarships	7,905,435	-	-	7,905,435
Special Events	2,244,114	-	-	2,244,114
Total Program Expenses	<u>10,149,549</u>	<u>-</u>	<u>-</u>	<u>10,149,549</u>
General and Administrative	667,416	-	-	667,416
Fundraising	1,206,400	-	-	1,206,400
Total Expenses	<u>12,023,365</u>	<u>-</u>	<u>-</u>	<u>12,023,365</u>
<b>CHANGE IN NET ASSETS</b>	(6,854,184)	1,048,471	500,865	(5,304,848)
Net Assets, January 1, 2018	10,447,141	52,329,128	46,678,484	109,454,753
Reclassification of Net Assets	6,698,801	(6,913,742)	214,941	-
<b>NET ASSETS - JUNE 30, 2018</b>	<u>\$ 10,291,758</u>	<u>\$ 46,463,857</u>	<u>\$ 47,394,290</u>	<u>\$ 104,149,905</u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**SIX-MONTH PERIOD ENDED JUNE 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ (5,304,848)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Permanently Restricted Contributions	(500,865)
Depreciation	33,567
Realized Gain on Sales of Investments	(1,189,863)
Unrealized Loss on Investments	2,530,321
Change in Assets and Liabilities:	
Receivables	(492)
Accrued Interest Receivable	(9,885)
Prepaid Expenses	(172,252)
Pledges Receivable	1,805,539
Increase in Cash Surrender Value of Life Insurance Policy	1,072
Accounts Payable and Accrued Expenses	163,480
Scholarships Payable	6,788,590
Deferred Rent	(21,383)
Deferred Florida License Plate Program Revenue	91,745
Deferred Illinois License Plate Program Revenue	25,014
Net Cash Provided by Operating Activities	<u>4,239,740</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Investments	(18,939,100)
Proceeds from Sales of Investments	<u>11,121,026</u>
Net Cash Used in Investing Activities	(7,818,074)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Receipts Under Charitable Trusts and Annuities	100,502
Permanently Restricted Contributions	500,865
Change in Beneficial Interest in Pooled Income Fund	(723)
Net Cash Provided by Financing Activities	<u>600,644</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(2,977,690)
Cash and Cash Equivalents - January 1, 2018	<u>11,948,590</u>
<b>CASH AND CASH EQUIVALENTS - JUNE 30, 2018</b>	<u>\$ 8,970,900</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION</b>	
Receipt of Donated Stock	<u>\$ 2,580,411</u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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-three 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.

The Foundation's Board of Directors approved the change in the Foundation's fiscal year-end from December 31 to June 30. This change was made to better align the Foundation's fiscal reporting period more closely with its annual operating cycle. The change resulted in the six-month period that has been reflected in these financial statements, which is not comparable to prior or prospective full-year reporting.

**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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**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.

**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 nonreadily 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 estimates that all pledges receivable are fully 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 (three to seven years for furniture and equipment, five years for software and three 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 scholarships are remitted to educational institutions.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 June 30, 2018, balance was \$7,291,758. At June 30, 2018, there were \$7,259,457 in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included in the June 30, 2018, 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. At June 30, 2018, Board Designated Net Assets were \$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 six-month period ended June 30, 2018, certain donors who had previously provided permanently restricted endowed contributions requested the Foundation to transfer those endowed contributions to unrestricted or temporarily restricted funds.

Additionally, scholarships accrued that remained unpaid from temporarily restricted funds at June 30, 2018, are reclassified from temporarily restricted to unrestricted net assets through this line item.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 statement 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 six-month period ended June 30, 2018, the Foundation awarded 2,306 scholarships totaling \$7,750,000 for use during the 2018-2019 academic year. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense for the six-month period ended June 30, 2018, was \$7,905,435, including an allocation of indirect costs of \$948,060.

**Functional Allocation of Expenses**

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

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 accounting principles generally accepted in the United States of America, 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. 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**  
**JUNE 30, 2018**

**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 April 8, 2019, 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 statement of financial position.

**NOTE 3 INVESTMENTS**

Investments comprise the following at June 30, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Money Market	\$ 1,816,649	\$ 1,816,649
Mutual Funds - Fixed Income	20,337,196	19,997,322
ETF - Fixed Income	15,696,392	15,460,380
Mutual Funds - Equities	5,588,272	5,895,398
ETF - Equities	23,953,594	26,446,498
Mutual Funds - Real Estate	1,103,207	1,175,071
ETF - Commodities	2,783,485	3,200,131
Hedge Funds	2,903,378	2,902,818
Total	<u>\$ 74,182,173</u>	<u>\$ 76,894,267</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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 3 INVESTMENTS (CONTINUED)**

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

Investments	\$ 74,020,084
Assets Held Under Charitable Trusts and Annuities	2,874,183
Total	<u>\$ 76,894,267</u>

Investment fees totaled \$97,313 at June 30, 2018, and are netted against interest and dividend income.

Investment loss is comprised of the following for the six-month period ended June 30, 2018:

Interest and Dividend Income	\$ 787,823
Unrealized Loss on Investments	(2,530,321)
Realized Gain on Sales of Investments	1,189,863
Total	<u>\$ (552,635)</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 hedge funds measured at NAV to allow reconciliation to the statement of financial position at June 30, 2018:

	Level 1	Level 2	Level 3	Total
<u>Investments</u>				
Cash and Money Market	\$ 1,801,229	\$ -	\$ -	\$ 1,801,229
Mutual Funds - Fixed income	19,372,525	-	-	19,372,525
ETF - Fixed income	15,356,289	-	-	15,356,289
Mutual Funds - Equities	4,313,298	-	-	4,313,298
ETF - Equities	26,160,499	-	-	26,160,499
Mutual Funds - Real Estate	1,109,078	-	-	1,109,078
ETF - Commodities	3,004,348	-	-	3,004,348
Subtotal	71,117,266	-	-	71,117,266
Hedge Funds Measured at NAV:				
Aurora Offshore Ltd II				2,817
Alpha Core Strategies Feeder Fund				2,900,001
Total Hedge Funds				2,902,818
Subtotal				74,020,084
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	15,420	-	-	15,420
Mutual Funds - Fixed income	624,797	-	-	624,797
ETF - Fixed income	104,091	-	-	104,091
Mutual Funds - Equities	1,582,100	-	-	1,582,100
ETF - Equities	285,999	-	-	285,999
Mutual Funds - Real Estate	65,993	-	-	65,993
ETF - Commodities	195,783	-	-	195,783
Subtotal	2,874,183	-	-	2,874,183
Total Investments	\$ 73,991,449	\$ -	\$ -	\$ 76,894,267

In accordance with ASC subtopic 820-10, certain investments 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 amount presented in the statement 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.

The investment objective of the Alpha Core Strategies Feeder Fund, Q.P. is to achieve attractive risk-adjusted rates of return through investment in a diversified portfolio of assets. Redemptions could generally be made at the net asset value of the last business day of each calendar quarter, on at least 60 calendar days' written notice to the respective Feeder Fund. There are no unfunded future commitments at June 30, 2018.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 PLEDGES RECEIVABLE**

Promises to give at June 30, 2018, represent unconditional amounts pledged. 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% - 2.65%.

The amount of the discounted promises to give at June 30, 2018, at the realized present value is reflected below:

Receivables Due in One Year	\$ 3,440,822
Receivables Due in Two to Five Years	17,714,152
Receivables Due in More than Five Years	6,325,000
Total Pledges Receivable	27,479,974
Less:	
Discount to Reduce to Present Value	(1,133,312)
Allowance for Uncollectible Pledges	-
Net Pledges Receivable	\$ 26,346,662

**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 six-month period ended June 30, 2018, no grants were received from the state of Arizona.

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 and states of the license plate program. 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 from Florida and Illinois and not yet expended before year-end are included in scholarships payable and deferred Florida and Illinois license plate program revenues. JROTC and Young Marines programs payable balances were \$82,008 at June 30, 2018.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS AND ANNUITIES**

The Foundation received assets in 2005 under the Cuneo Charitable Remainder Unitrust (Unitrust), which requires the Foundation, as trustee of the Unitrust, to pay the remaining beneficiary annually the lesser of the Unitrust income or 5% of the fair value of Unitrust assets until the beneficiary's death. The assets of the Trust, which are included in the accompanying statement of financial position at June 30, 2018, totaled \$754,388. The liability under the Unitrust at June 30, 2018, 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 June 30, 2018, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% at June 30, 2018, and a risk-free discount rate of 4.91%, totaled \$108,623.

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. The funds remaining at the termination of the McCravey Unitrust were transferred during the six-month period ended June 30, 2018 to the main endowment/investment account at Northern Trust and made active the endowed scholarship in the name of Doyle R. McCravey Scholarship Fund, in accordance with the trust agreement. The transfer of assets from the McCravey Unitrust totaled \$1,887,671.

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 at June 30, 2018, was \$2,119,795. 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 statement of financial position. The balance at June 30, 2018, was \$1,045,857.

**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 was for one year and was renewable annually. The line of credit matures on December 5, 2019. There were no outstanding balances at June 30, 2018. The line of credit accrues interest at a rate equal to London Interbank Offered Rate (LIBOR) rate + 2.75%. At June 30, 2018, the variable interest rate was 4.68%.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 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 calendar year.

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 calendar year. For the first calendar year of a fund, there shall be no spending from the fund unless directed otherwise by the donor. For the second calendar year of a fund, the Spending Amount shall be the Spending Percentage of the preceding calendar year-end fair value of the fund; and for the third calendar year of a fund, the Spending Amount shall be the Spending Percentage of the average of the two preceding calendar year-end fair values of the fund. For subsequent calendar years, the Spending Amount shall be the Spending Percentage of the average of the three preceding calendar year-end fair values of the fund. The Spending Percentage currently is 4%, and it shall be reviewed and set by the Foundation's Finance and Investment Committee each fall for the following academic 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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9 ENDOWMENT (CONTINUED)**

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.

The following is a summary of endowment funds subject to UPMIFA for the six-month period ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2017	\$ -	\$ 12,246,668	\$ 42,444,800	\$ 54,691,468
Investment Loss	-	(414,230)	-	(414,230)
Contributions Collected	-	-	1,447,029	1,447,029
Reclass of Donor Restricted Endowment Funds with Deficiencies	(804)	804	-	-
Appropriations	-	(1,435,487)	-	(1,435,487)
Reclassifications	-	305,932	214,941	520,873
Endowment Net Assets, June 30, 2018	<u>\$ (804)</u>	<u>\$ 10,703,687</u>	<u>\$ 44,106,770</u>	<u>\$ 54,809,653</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>	
Endowment Net Assets, June 30, 2018			\$ 44,106,770	
Pledges Receivable, Net of Allowance			<u>3,287,520</u>	
Permanently Restricted Net Assets, June 30, 2018			<u>\$ 47,394,290</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 donor-restricted endowment funds with deficiencies of \$804 as of June 30, 2018.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 RELATED PARTIES**

For the six-month period ended June 30, 2018, the Foundation recognized contributions from the Board in the amount of \$243,670. Pledges receivable from Board members totaled \$230,145 at June 30, 2018.

**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 totaled \$40,005 for the six-month period ended June 30, 2018.

**NOTE 12 COMMITMENTS**

**Operating Lease**

In May 2011, the Foundation entered into a noncancellable 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 statement of financial position.

Rent and operating expenses for the six-month period ended June 30, 2018, totaled \$74,257.

Total future minimum rental payments for the years ending June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 178,896
2020	183,368
2021	187,954
2022	<u>128,172</u>
Total	<u>\$ 678,390</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 June 30, 2018, the Foundation commitment for liquidated damages totaled approximately \$303,000.

The Foundation has entered into agreements with various event providers for event services and space. The agreements indicated that the Foundation is liable for liquidated damages in the event of cancellation. At June 30, 2018, the Foundation commitment for liquidated damages totaled approximately \$110,000.



## 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 six-month period ended June 30, 2018, and have issued our report thereon dated April 8, 2019, which contained an unmodified opinion on those financial statements. Our audit was 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  
April 8, 2019

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**SIX-MONTH PERIOD ENDED JUNE 30, 2018**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships	\$ 6,957,375	\$ -	\$ -	\$ 6,957,375
Direct Events Expenses	2,244,114	-	-	2,244,114
Wages and Benefits	709,352	218,639	722,530	1,650,521
Legal Fees	-	30,692	-	30,692
Accounting Fees	-	55,154	-	55,154
Direct Mail	-	-	44,584	44,584
Other Professional Fees	53,854	65,724	51,456	171,034
Advertising and Promotion	42,590	160,739	108,206	311,535
Office Expenses	21,075	15,251	52,830	89,156
Information Technology	45,481	13,757	30,323	89,561
Occupancy	31,536	13,721	30,086	75,343
Travel	19,837	27,777	118,342	165,956
Meetings and Conferences	9,733	41,266	13,116	64,115
Depreciation	14,602	5,035	13,930	33,567
Insurance	-	19,661	-	19,661
Other Expense	-	-	20,997	20,997
<b>Total Functional Expenses</b>	<b><u><u>\$ 10,149,549</u></u></b>	<b><u><u>\$ 667,416</u></u></b>	<b><u><u>\$ 1,206,400</u></u></b>	<b><u><u>\$ 12,023,365</u></u></b>