

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**



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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, 2019, the related statements of activities, functional expenses, and cash flows for the year 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, resulting in no change to the previously reported net assets. Our opinion is not modified with respect to that matter.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
March 12, 2020

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**ASSETS**

Cash and Cash Equivalents	\$ 13,871,997
Receivables	145,713
Prepaid Expenses	601,146
Pledges Receivable, Net of Allowance	19,376,375
Investments	81,875,573
Assets Held Under Charitable Trusts and Annuities	3,025,646
Property and Equipment, Net	105,275
Other Assets	<u>105,132</u>
Total Assets	<u><u>\$ 119,106,857</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 480,335
Scholarships Payable, Net of Allowance	7,562,200
Deferred Rent	146,219
Deferred License Plate Program Revenue	730,231
Obligations Under Charitable Trusts and Annuities	<u>1,183,829</u>
Total Liabilities	10,102,814

**NET ASSETS**

Without Donor Restrictions:	
Undesignated	8,726,655
Board Designated	<u>3,047,226</u>
Total Without Donor Restrictions:	11,773,881
With Donor Restrictions:	
With Donor Restrictions - Unrestricted Promises to Give for Operations Solely Restricted for Time of Receipt	<u>5,315,651</u>
Total With and Without Donor Restricted Promises to Give	17,089,532
With Donor Restrictions - Purpose Restricted	<u>39,595,934</u>
Total With Donor Restrictions - Time and Purpose	44,911,585
With Donor Restrictions - Perpetual Endowments	<u>52,318,577</u>
Total Net Assets	<u><u>109,004,043</u></u>
Total Liabilities and Net Assets	<u><u>\$ 119,106,857</u></u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Total
<b>REVENUE, GAIN, AND OTHER SUPPORT</b>				
Special Events	\$ 5,255,757	\$ 3,303,574	\$ 1,183,148	\$ 9,742,479
Contributions	2,655,868	1,632,948	3,565,572	7,854,388
Investment Income, Net	176,456	4,387,877	-	4,564,333
Other Revenue - License Plate Programs	556,746	-	-	556,746
Other Revenue/Change in Values of Obligations Under Charitable Trusts	6,250	(21,184)	53	(14,881)
Net Assets Released from Restrictions:				
Satisfaction of Time and Purpose Restrictions	10,182,983	(10,182,983)	-	-
Total Revenue, Gain, and Other Support	<u>18,834,060</u>	<u>(879,768)</u>	<u>4,748,773</u>	<u>22,703,065</u>
<b>EXPENSES</b>				
Scholarship Programs	13,555,556	-	-	13,555,556
General and Administrative	1,449,826	-	-	1,449,826
Fundraising	2,843,545	-	-	2,843,545
Total Expenses	<u>17,848,927</u>	<u>-</u>	<u>-</u>	<u>17,848,927</u>
<b>CHANGE IN NET ASSETS</b>	985,133	(879,768)	4,748,773	4,854,138
Net Assets - Beginning of Year	10,291,758	46,463,857	47,394,290	104,149,905
Reclassification of Net Assets	496,990	(672,504)	175,514	-
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 11,773,881</u>	<u>\$ 44,911,585</u>	<u>\$ 52,318,577</u>	<u>\$ 109,004,043</u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2019**

	<u>Scholarship Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Scholarships	\$ 8,223,262	\$ -	\$ -	\$ 8,223,262
Direct Special Events	3,150,202	-	-	3,150,202
Wages and Benefits	1,520,383	511,754	1,551,049	3,583,186
Legal and Accounting	-	96,231	-	96,231
Bad Debt	-	61,000	-	61,000
Direct Mail	-	-	154,851	154,851
Professional Fees	83,849	226,761	143,330	453,940
Advertising and Promotion	136,308	276,834	225,278	638,420
Office Expenses	30,266	19,989	116,059	166,314
Information Technology	82,056	32,389	68,271	182,716
Occupancy	70,180	39,177	67,276	176,633
Travel	54,142	50,716	309,804	414,662
Meetings and Conferences	180,445	81,014	73,955	335,414
Depreciation	24,463	8,436	23,338	56,237
Insurance	-	40,065	-	40,065
Other	-	5,460	110,334	115,794
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Functional Expenses	<u>\$ 13,555,556</u>	<u>\$ 1,449,826</u>	<u>\$ 2,843,545</u>	<u>\$ 17,848,927</u>

See accompanying Notes to Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 4,854,138
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Contributions with Donor Restrictions - Perpetuity	(4,748,773)
Depreciation	56,237
Realized Gain on Sales of Investments	(395,724)
Unrealized Gain on Investments	(1,949,972)
Change in Assets and Liabilities:	
Receivables	(59,318)
Prepaid Expenses	138,370
Pledges Receivable	6,970,287
Other Assets	(5,926)
Accounts Payable and Accrued Expenses	117,879
Scholarships Payable	693,700
Deferred Rent	(46,418)
Deferred License Plate Program Revenue	159,751
Net Cash Provided by Operating Activities	<u>5,784,231</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Investments	(26,636,055)
Proceeds from Sales of Investments	<u>20,974,799</u>
Net Cash Used in Investing Activities	(5,661,256)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Receipts Under Charitable Trusts and Annuities	29,349
Contributions with Donor Restrictions - Perpetuity	<u>4,748,773</u>
Net Cash Provided by Financing Activities	<u>4,778,122</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,901,097
Cash and Cash Equivalents - June 30, 2018	<u>8,970,900</u>
<b>CASH AND CASH EQUIVALENTS - JUNE 30, 2019</b>	<u><u>\$ 13,871,997</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION</b>	
Receipt of Donated Stock	<u><u>\$ 3,490,048</u></u>

See accompanying Notes to Financial Statements.



**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Marine Corps Scholarship Foundation, Inc. (Foundation) is a nonprofit corporation founded in 1962. The primary purpose of the Foundation is to provide financial assistance to children of Marines furthering their education beyond the high school level in an accredited college, university or career and technical institution.

The Foundation includes thirty-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 and took effect with the six-month period ended June 30, 2018.

**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 nine 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, 2019**

**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 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 \$61,000 as of June 30, 2019 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 (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 License Plate Program Revenue**

Deferred license plate program revenue consists of funds received from the states of Florida, Illinois, and Arizona in advance. The funds are to be used for the Florida, Illinois, and Arizona 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, 2019**

**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:

Without Donor Restrictions - **Operating Fund:** Represents resources of the Foundation available to support general operations and exempt purpose programs. The June 30, 2019, balance was \$8,726,655. At June 30, 2019, there were \$5,315,651 in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included in the June 30, 2019, net assets without donor restrictions as these funds are currently 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 net assets without donor restrictions 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, 2019, Board Designated Net Assets were \$3,047,226.

With Donor Restrictions – **Time and Purpose:** Represents resources, including earnings on permanent endowments, which are subject to donor-imposed purpose or time restrictions.

**Perpetual Endowments:** Represents resources contributed to the Foundation which are to be held in perpetuity.

**Reclassification of Net Assets**

The Foundation has a stipulated policy whereby donor restricted funds pledged or received with the intention of being endowed funds are recorded as net assets with donor restriction – time and purpose until such time as accumulations in the fund as defined reach a minimum of \$100,000. Upon reaching the accumulation threshold, the funds are reclassified to net assets with donor restrictions – perpetuity, endowed funds. During the year ended June 30, 2019, certain donors who had previously provided permanent endowed contributions requested the Foundation to transfer those endowed contributions to net assets without donor restrictions or net assets with donor restrictions – time and purpose.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

**Net Assets with Donor Restrictions – Time and Purpose Support**

The Foundation's policy is to report interest and dividends and realized and unrealized gains and losses attributable to investment assets related to net assets with donor restrictions – perpetuity as net assets with donor restrictions – time and purpose support. When a restriction expires (that is, when a stipulated time restriction ends or the purpose for restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 scholarship 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 reported as support with and without donor restrictions 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 year ended June 30, 2019, the Foundation awarded 2,360 scholarships totaling \$8,200,000 for use during the 2019-2020 academic year. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense for the year ended June 30, 2019, was \$8,223,262, including an allocation of indirect costs of \$2,182,092.

**Functional Allocation of Expenses**

The costs of program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Certain costs including occupancy, office supplies, utilities, software, and staff meetings/meals are attributed to more than one program or function, and accordingly, have been allocated among the scholarship program and activities benefited. These costs are allocated based on management's approved percentages, which estimates the use of overhead costs by employee labor within each department.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 non-active markets.

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

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

**Liquidity**

As a part of its liquidity management plan, the Foundation invests cash in excess of daily requirements in various investments based on the Foundation's investment policy. To help manage unanticipated liquidity needs, the Foundation has an available line of credit in the amount of \$1 million which it could draw upon. The Foundation also maintains an Operating Reserve that is available if any cash shortfalls arises. The Foundation's financial assets available for general expenditure within one year of the statement of financial position date are as follows as of June 30, 2019:

Cash and Cash Equivalents	\$	13,871,997
Receivables		145,713
Pledges Receivable, Net of Allowance		19,376,375
Investments		81,875,573
Assets Held Under Charitable Trusts and Annuities		3,025,646
Total		118,295,304
Less: License Plate Programs Restricted Cash		(730,231)
Less: Net Assets with Donor Restrictions		(97,230,162)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year		\$ 20,334,911

**Adoption of Accounting Standards Update 2016-14**

The Foundation has adopted Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958) (ASU 2016-14) for the year ended June 30, 2019. This standard was issued by the Financial Accounting Standards Board (FASB) to improve the previous net asset classification requirements and the information presented in the financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. ASU 2016-14 reduces the number of net assets classification from three to two: with donor restrictions and without donor restrictions. The ASU also requires nonprofits to report expenses by functional and natural classification in one location in the financial statements, and requires nonprofits to report quantitative and qualitative information about management of liquidity resources and availability of financial assets. The ASU has been applied and resulted in no change to the previously reported net assets.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 March 12, 2020, the date the financial statements were available to be issued and noted the following subsequent event.

Subsequent to year end, a pandemic of the Corona Virus (COVID-19) was declared by the World Health Organization. Future events and special event revenues and expenses of the Foundation are uncertain due to the potential impact on travel. This could also impact transactions relating to customers and vendors. In addition, both domestic and international equity markets have experienced significant declines since June 30, 2019. As of March 12, 2020, the amount and likelihood of loss relating to these events is not determined.

**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, 2019:

	<u>Cost</u>	<u>Fair Value</u>
Cash and Money Market	\$ 2,027,956	\$ 2,027,956
Mutual Funds - Fixed Income	25,008,929	25,337,022
ETF - Fixed Income	17,402,030	17,993,588
Mutual Funds - Equities	1,768,005	1,936,190
ETF - Equities	29,199,402	32,640,869
Mutual Funds - Real Estate	1,944,303	2,115,989
Hedge Funds	2,900,645	2,849,605
	<u>\$ 80,251,270</u>	<u>\$ 84,901,219</u>
Total		

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, 2019**

**NOTE 3 INVESTMENTS (CONTINUED)**

Investments are reported in the accompanying statement of financial position as of June 30, 2019:

Investments	\$ 81,875,573
Assets Held Under Charitable Trusts and Annuities	<u>3,025,646</u>
Total	<u><u>\$ 84,901,219</u></u>

Investment income, net of investment fees, is comprised of the following for the year ended June 30, 2019:

Interest and Dividend Income	\$ 2,416,000
Unrealized Gain on Investments	1,949,972
Realized Gain on Sales of Investments	395,724
Less: Investment Fees	<u>(197,363)</u>
Total	<u><u>\$ 4,564,333</u></u>



**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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, 2019:

	Level 1	Level 2	Level 3	Total
<u>Investments</u>				
Cash and Money Market	\$ 2,003,934	\$ -	\$ -	\$ 2,003,934
Mutual Funds - Fixed income	24,587,712	-	-	24,587,712
ETF - Fixed income	17,936,665	-	-	17,936,665
Mutual Funds - Equities	305,515	-	-	305,515
ETF - Equities	32,163,635	-	-	32,163,635
Mutual Funds - Real Estate	2,028,507	-	-	2,028,507
Subtotal	79,025,968	-	-	79,025,968
Hedge Funds Measured at NAV:				
Aurora Offshore Ltd II				645
Alpha Core Strategies Feeder Fund				2,848,960
Total Hedge Funds				2,849,605
Subtotal				81,875,573
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	24,022	-	-	24,022
Mutual Funds - Fixed income	749,310	-	-	749,310
ETF - Fixed income	56,923	-	-	56,923
Mutual Funds - Equities	1,630,675	-	-	1,630,675
ETF - Equities	477,234	-	-	477,234
Mutual Funds - Real Estate	87,482	-	-	87,482
Subtotal	3,025,646	-	-	3,025,646
Total Investments	\$ 82,051,614	\$ -	\$ -	\$ 84,901,219

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 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, 2019.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 PLEDGES RECEIVABLE**

Promises to give at June 30, 2019, 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 0.89% - 3.05%.

The amount of the discounted promises to give at June 30, 2019, at the realized present value is reflected below:

Receivables Due in One Year	\$ 6,169,627
Receivables Due in Two to Five Years	11,680,955
Receivables Due in More than Five Years	<u>2,150,000</u>
Total Pledges Receivable	<u>20,000,582</u>
Less:	
Discount to Reduce to Present Value	(563,207)
Allowance for Uncollectible Pledges	<u>(61,000)</u>
Net Pledges Receivable	<u><u>\$ 19,376,375</u></u>

Approximately 72% of the Foundation's pledges receivable balance is comprised from two individual donors.

**NOTE 6 LICENSE PLATE PROGRAMS**

The Foundation has agreements with Florida, Illinois, and Arizona to receive grants from each state for the purpose of awarding scholarships for higher education purposes.

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 programs. 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 license plate program revenue. JROTC and Young Marines programs payable balances were \$70,828 at June 30, 2019.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
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**NOTE 7 PROPERTY AND EQUIPMENT, NET**

Property and equipment, net of accumulated depreciation, is comprised of the following for the year ended June 30, 2019:

Furniture and Equipment	\$	441,883
Leasehold Improvements		328,791
Software and Website Development		304,908
Total Property and Equipment		1,075,582
Less: Accumulated Depreciation and Amortization		(970,307)
Net Property and Equipment	\$	105,275

**NOTE 8 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, 2019, totaled \$755,798. The liability under the Unitrust at June 30, 2019, 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, 2019, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% at June 30, 2019, and a risk-free discount rate of 4.91%, totaled \$107,942.

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, 2019, was \$2,269,848. 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, 2019, was \$1,075,887.

**NOTE 9 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 November 29, 2020. There were no outstanding balances at June 30, 2019. The line of credit accrues interest at a rate equal to London Interbank Offered Rate (LIBOR) rate + 2.75%. At June 30, 2019, the variable interest rate was 5.12%.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
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**NOTE 10 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 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. As a result of this interpretation, the Foundation classifies as net assets restricted into perpetuity (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 net assets restricted into perpetuity is classified as net assets restricted for time or purpose 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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
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**NOTE 10 ENDOWMENT (CONTINUED)**

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.

The following is a summary of endowment funds subject to UPMIFA for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Total
Endowment Net Assets, June 30, 2018	\$ (804)	\$ 10,703,687	\$ 44,106,770	\$ 54,809,653
Investment Income	-	3,786,158	-	3,786,158
Contributions Collected	-	-	5,068,449	5,068,449
Reclass of Donor Restricted Funds with Deficiencies	804	(804)	-	-
Appropriations	-	(1,862,010)	-	(1,862,010)
Reclassifications	-	(312,607)	175,514	(137,093)
Endowment Net Assets, June 30, 2019	<u>\$ -</u>	<u>\$ 12,314,424</u>	<u>\$ 49,350,733</u>	<u>\$ 61,665,157</u>
Endowment Net Assets, June 30, 2018			\$ 44,106,770	
Pledges Receivable, Net of Allowance			<u>3,287,520</u>	
Endowment Net Assets, June 30, 2018			<u>\$ 47,394,290</u>	
Endowment Net Assets, June 30, 2019			\$ 49,350,733	
Pledges Receivable, Net of Allowance			<u>2,967,844</u>	
Endowment Net Assets, June 30, 2019			<u>\$ 52,318,577</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 June 30, 2019.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
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**NOTE 11 RELATED PARTIES**

For the year ended June 30, 2019, the Foundation recognized contributions from the Board in the amount of \$1,653,963. Pledges receivable from Board members totaled \$120,500 at June 30, 2019.

**NOTE 12 RETIREMENT PLAN**

The Foundation maintains a 403(b) Retirement Plan for employees meeting certain eligibility requirements, as outlined within the plan. Participants are eligible to make voluntary contributions to the plan immediately upon employment. The Foundation contributes 5% of each participant's compensation upon completion of one full year of employment and at least 1,000 hours of service. Contributions to the plan by the Foundation totaled \$113,716 for the year ended June 30, 2019.

**NOTE 13 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.

Subsequent to the year ended June 30, 2019, the first amendment to the office lease was signed which extended the lease term through 2032.

Rent and operating expenses for the year ended June 30, 2019, totaled \$145,563.

At June 30, 2019, total future minimum rental payments for the years ending June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 183,368
2021	187,954
2022	<u>128,172</u>
Total	<u>\$ 499,494</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.**  
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**NOTE 13 COMMITMENTS (CONTINUED)**

**Other Commitments**

The Foundation has entered into agreements with hotels for room and space accommodations and various event providers for services. The agreements indicated that the Foundation is liable for liquidated damages in the event of cancellation. At June 30, 2019, the Foundation commitment for liquidated damages totaled approximately \$458,000.