

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, 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

Arlington, Virginia
July 8, 2015



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MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and Cash Equivalents	\$ 7,871,715	\$ 7,569,994
Receivables	1,325	33,585
Accrued Interest Receivable	36,357	36,600
Prepaid Expenses	518,882	377,367
Investments	44,249,596	40,352,272
Pledges Receivable, Net of Allowance	12,473,917	9,545,440
Deposits	38,027	141,823
Cash Surrender Value of Life Insurance Policy	25,557	22,138
Beneficial Interest in Pooled Income Fund	48,091	48,816
Assets Held Under Charitable Trusts	2,671,404	2,707,062
Property and Equipment:		
Furniture and Equipment	289,425	234,144
Leasehold Improvements	328,791	327,400
Software and Website Development	455,024	398,701
Total Property and Equipment	1,073,240	960,245
Less: Accumulated Depreciation and Amortization	680,426	603,340
Net Property and Equipment	392,814	356,905
 Total Assets	 \$ 68,327,685	 \$ 61,192,002
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 527,401	\$ 327,503
Scholarships Payable	182,968	73,104
Deferred Rent	321,261	348,869
Deferred Florida License Plate Program Revenue	260,586	351,876
Deferred Illinois License Plate Program Revenue	127,533	51,666
Line of Credit	250,000	-
Obligations Under Charitable Trusts	507,267	525,990
Amounts Held for Others	416,865	416,034
Other Liabilities	2,300	-
Total Liabilities	2,596,181	2,095,042
NET ASSETS (DEFICIT)		
Unrestricted	(662,217)	644,227
Temporarily Restricted	29,952,849	23,329,354
Permanently Restricted Endowment	36,440,872	35,123,379
Total Net Assets (Deficit)	65,731,504	59,096,960
 Total Liabilities and Net Assets (Deficit)	 \$ 68,327,685	 \$ 61,192,002

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE, GAINS, AND OTHER SUPPORT								
Special Events	\$ 4,235,537	\$ 8,878,034	\$ 1,674,461	\$ 14,788,032	\$ 4,237,124	\$ 4,239,028	\$ 1,442,419	\$ 9,918,571
Contributions	1,935,044	3,481,260	115,636	5,531,940	2,899,281	2,425,361	1,379,361	6,704,003
Investment Gain (Loss)	115,835	1,463,083	(725)	1,578,193	269,368	3,016,322	-	3,285,690
Other Revenue - Florida License Plate Program	544,735	-	-	544,735	664,173	-	-	664,173
Other Revenue - Illinois License Plate Program	89,142	-	-	89,142	85,745	-	-	85,745
Other Revenue/Change in Values of Obligations Under Charitable Trusts	67,553	(12,497)	(90,581)	(35,525)	14,906	(16,286)	(23,893)	(25,273)
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	7,244,147	(7,244,147)	-	-	5,523,340	(5,523,340)	-	-
Total Revenue, Gains, and Other Support	<u>14,231,993</u>	<u>6,565,733</u>	<u>1,698,791</u>	<u>22,496,517</u>	<u>13,693,937</u>	<u>4,141,085</u>	<u>2,797,887</u>	<u>20,632,909</u>
EXPENSES								
Scholarships	8,476,212	-	-	8,476,212	8,451,198	-	-	8,451,198
Special Events	3,103,512	-	-	3,103,512	2,443,794	-	-	2,443,794
Total Program Expenses	<u>11,579,724</u>	<u>-</u>	<u>-</u>	<u>11,579,724</u>	<u>10,894,992</u>	<u>-</u>	<u>-</u>	<u>10,894,992</u>
General and Administrative	1,836,377	-	-	1,836,377	1,632,868	-	-	1,632,868
Fundraising	2,445,872	-	-	2,445,872	2,466,782	-	-	2,466,782
Total Expenses	<u>15,861,973</u>	<u>-</u>	<u>-</u>	<u>15,861,973</u>	<u>14,994,642</u>	<u>-</u>	<u>-</u>	<u>14,994,642</u>
CHANGE IN NET ASSETS	(1,629,980)	6,565,733	1,698,791	6,634,544	(1,300,705)	4,141,085	2,797,887	5,638,267
Net Assets - Beginning of Year	644,227	23,329,354	35,123,379	59,096,960	660,762	19,044,935	33,752,996	53,458,693
Reclassification of Net Assets	323,536	57,762	(381,298)	-	1,284,170	143,334	(1,427,504)	-
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (662,217)</u>	<u>\$ 29,952,849</u>	<u>\$ 36,440,872</u>	<u>\$ 65,731,504</u>	<u>\$ 644,227</u>	<u>\$ 23,329,354</u>	<u>\$ 35,123,379</u>	<u>\$ 59,096,960</u>

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 6,634,544	\$ 5,638,267
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Permanently Restricted Contributions	(1,698,791)	(2,797,887)
Depreciation	98,493	83,093
Realized Gain on Sales of Investments	(348,850)	(1,937,827)
Unrealized Gain on Investments	(332,934)	(607,039)
Donated Stock	(1,704,734)	(809,804)
Change in Assets and Liabilities:		
Receivables	32,260	(28,445)
Accrued Interest Receivable	243	(15,447)
Prepaid Expenses	(141,515)	(38,960)
Pledges Receivable	(2,928,477)	(282,506)
Deposits	103,796	(61,855)
Increase in Cash Surrender Value of Life Insurance Policy	(3,419)	(3,289)
Accounts Payable and Accrued Expenses	199,898	(27,500)
Scholarships Payable	109,864	(104,321)
Deferred Rent	(27,608)	(23,321)
Deferred Florida License Plate Program Revenue	(91,290)	(117,655)
Deferred Illinois License Plate Program Revenue	75,867	14,262
Amounts Held for Others	831	2,483
Other Liabilities	2,300	-
Net Cash Provided by (Used in) Operating Activities	(19,522)	(1,117,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(9,530,757)	(44,178,277)
Proceeds from Sales of Investments	8,055,609	42,780,846
Purchases of Property and Equipment	(134,402)	(52,391)
Net Cash Used in Investing Activities	(1,609,550)	(1,449,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under Charitable Trusts	(18,723)	(77,599)
Permanently Restricted Contributions	1,698,791	2,797,887
Line of Credit Advancement	250,000	-
Change in Beneficial Interest in Pooled Income Fund	725	(48,816)
Net Cash Provided by Financing Activities	1,930,793	2,671,472
NET INCREASE IN CASH AND CASH EQUIVALENTS	301,721	103,899
Cash and Cash Equivalents - Beginning of Year	7,569,994	7,466,095
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,871,715	\$ 7,569,994
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Receipt of Donated Stock	\$ 1,704,734	\$ 809,804
Receipt of Beneficial Interest in Pooled Income Fund	\$ -	\$ 48,816

See accompanying Notes to the Financial Statements.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 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. The tax returns for the years ended December 31, 2011 through 2013 are open to examination by federal and state authorities.

Use of Estimates

The preparation of financial statements prepared in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments with maturity dates of three months or less when purchased are considered cash equivalents. The Foundation does not consider money market funds that are part of the investments portfolio to be cash equivalents.

Receivables

Receivables are stated at their net realizable value. Receivables past due are individually analyzed for collectibility. When all collection efforts are exhausted, the receivable is written off against bad debt expense. Management estimates that all receivables are fully collectible.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 also holds positions in alternative investments that invest in 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 necessary 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 collectibility. Pledges receivable which management determines to be uncollectible are written off. Management has established an allowance of \$125,380 and \$22,000 as of December 31, 2014 and 2013, respectively, for those pledges receivable it does not believe to be collectible.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets (3-7 years for furniture and equipment, 5 years for software and 3 years for website development). Leasehold improvements are amortized over the lesser of the estimated useful lives or the lease term. Assets with a cost of \$1,500 or more and useful lives of more than one year are capitalized.

Deferred Rent

Deferred rent represents escalations and abatements in monthly rent payments and a tenant improvement allowance which are amortized using the straight-line method over the life of the lease.

Deferred Florida and Illinois License Plate Programs Revenue

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

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013 balances were (\$1,877,981) and (\$506,099), respectively. In addition, \$1,654,000 in multi-year pledges made in 2014 to fund operations and exempt purpose programs in future years is also available but not included in the December 31, 2014 balance since these funds are currently temporarily restricted due to the timing of the pledge payments to be received.

Board Designated: Represents proceeds from the sale of the building on St. Asaph Street that the Board designated in 2013 to fund program scholarships in future years. The December 31, 2014 and 2013 balances were \$689,555 and \$675,627, respectively. The remaining balance represents large bequests that the Board designated in 2014 and 2013 to fund program scholarships in future years. The December 31, 2014 and 2013 balances were \$526,209 and \$474,699, respectively.

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

Permanently Restricted Endowment: Represents resources contributed to the Foundation which are to be held in perpetuity.

Reclassification of Net Assets

The Foundation has a stipulated policy whereby restricted funds pledged or received with the intention of being endowed funds are recorded as temporarily restricted until such time as accumulations in the fund as defined reach a minimum of \$100,000, inclusive of earnings. Upon reaching the accumulation threshold, the funds are reclassified to permanently restricted, endowed funds. During the years ended December 31, 2014 and 2013, certain donors who had previously provided permanently restricted endowed contributions requested the Foundation to transfer those endowed contributions to unrestricted or temporarily restricted.

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.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, the Foundation awarded 2,200 and 2,045 scholarships totaling \$6,690,000 and \$6,729,000, respectively, for use during the 2014-2015 and 2013-2014 academic years. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense at December 31, 2014 and 2013 was \$8,476,212 and \$8,451,198, including an allocation of indirect costs of \$2,086,233 and \$2,014,273, 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 activity benefited.

Fair Value of Financial Instruments

Fair Value Measurements

Fair value measurement of investments is determined using a framework for measuring fair value, establishing a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Foundation accounts for certain financial assets and liabilities at fair value under various accounting literature.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Fair Value Hierarchy

The Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include among others, quoted prices for similar assets or liabilities in active markets or non-active markets.

Level 3

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

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through July 8, 2015, 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.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 CONCENTRATIONS OF RISK (CONTINUED)

Market Value Risk

The Foundation's investments are exposed to various risks, such as interest rate and market and credit risk. Due to the level of risk associated with certain investments, it is reasonably possible that such changes in the values of investments will occur in the near-term and that changes could materially affect the amounts reported in the accompanying statements of financial position.

NOTE 3 INVESTMENTS

Investments are recorded at fair value.

At December 31, 2014 and 2013, investments consisted of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 2,823,054	\$ 2,823,054	\$ 5,624,119	\$ 5,624,119
Equities	14,872	14,872	201,220	201,220
Mutual Funds - Fixed Income	14,232,614	14,263,089	11,583,652	11,378,780
Mutual Funds - Equities	22,716,090	24,692,254	17,223,507	19,129,153
Mutual Funds - Real Estate	1,137,998	1,194,408	1,154,345	1,099,183
Mutual Funds - Commodities	950,836	858,493	1,212,932	1,227,097
Corporate Bonds	-	-	225,743	229,992
Private Placement LLP	2,281,634	2,381,799	2,310,348	2,396,385
Hedge Funds	627,626	693,031	1,720,126	1,773,405
Total	\$ 44,784,724	\$ 46,921,000	\$ 41,255,992	\$ 43,059,334

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

	2014	2013
Investments	\$ 44,249,596	\$ 40,352,272
Assets Held Under Charitable Trusts	2,671,404	2,707,062
Total	\$ 46,921,000	\$ 43,059,334

Investment fees totaling \$155,061 and \$194,426 as of December 31, 2014 and 2013, respectively, are netted against interest and dividend income.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 3 INVESTMENTS (CONTINUED)

Investment gain is comprised of the following for the years ending December 31, 2014 and 2013:

	2014	2013
Interest and Dividend Income	\$ 896,409	\$ 740,824
Unrealized Gain on Investments	332,934	607,039
Realized Gain on Sales of Investments	348,850	1,937,827
Total	\$ 1,578,193	\$ 3,285,690

NOTE 4 FAIR VALUE MEASUREMENTS

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	2014			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 14,872	\$ -	\$ -	\$ 14,872
Mutual Funds - Fixed income	13,082,291	-	-	13,082,291
Mutual Funds - Equities	23,460,785	-	-	23,460,785
Mutual Funds - Real Estate	1,025,246	-	-	1,025,246
Mutual Funds - Commodities	805,827	-	-	805,827
Corporate Bonds	-	-	-	-
Private Placement LLP	-	2,381,799	-	2,381,799
Hedge Funds	-	693,031	-	693,031
Total	38,389,021	3,074,830	-	41,463,851
<u>Assets Held Under Charitable Trusts*</u>				
Mutual Funds - Fixed income	1,180,798	-	-	1,180,798
Mutual Funds - Equities	1,231,469	-	-	1,231,469
Mutual Funds - Real Estate	169,162	-	-	169,162
Mutual Funds - Commodities	52,666	-	-	52,666
Corporate Bonds	-	-	-	-
Total	2,634,095	-	-	2,634,095
Amounts Held for Others	-	-	(416,865)	(416,865)
	\$ 41,023,116	\$ 3,074,830	\$ (416,865)	\$ 43,681,081

*Cash and money market funds are recorded at cost which approximates fair value and accordingly are excluded.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	2013			Total
	Level 1	Level 2	Level 3	
<u>Investments*</u>				
Equities	\$ 201,220	\$ -	\$ -	\$ 201,220
Mutual Funds - Fixed income	10,156,028	-	-	10,156,028
Mutual Funds - Equities	17,851,210	-	-	17,851,210
Mutual Funds - Real Estate	1,027,800	-	-	1,027,800
Mutual Funds - Commodities	1,168,084	-	-	1,168,084
Corporate Bonds	-	204,244	-	204,244
Private Placement LLP	-	2,396,385	-	2,396,385
Hedge Funds	-	1,773,405	-	1,773,405
Total	30,404,342	4,374,034	-	34,778,376
<u>Assets Held Under Charitable Trusts*</u>				
Mutual Funds - Fixed Income	1,222,752	-	-	1,222,752
Mutual Funds - Equities	1,277,943	-	-	1,277,943
Mutual Funds - Real Estate	71,383	-	-	71,383
Mutual Funds - Commodities	59,013	-	-	59,013
Corporate Bonds	-	25,748	-	25,748
Total	2,631,091	25,748	-	2,656,839
Amounts Held for Others	-	-	(416,034)	(416,034)
	<u>\$ 33,035,433</u>	<u>\$ 4,399,782</u>	<u>\$ (416,034)</u>	<u>\$ 37,019,181</u>

*Cash and money market funds are recorded at cost which approximates fair value and accordingly are excluded.

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial liabilities for the years ended December 31, 2014 and 2013:

	Amounts Held for Others
Balance as of December 31, 2012	\$ (413,551)
Increase in Value	(2,483)
Balance as of December 31, 2013	(416,034)
Increase in Value	(831)
Balance as of December 31, 2014	<u>\$ (416,865)</u>

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2014 and 2013:

	2014			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
First State Investments Global				
Emerging Markets Fund	\$ 2,381,799	\$ -	Monthly	7 days
Aurora Offshore Ltd II	693,031	-	Quarterly	95 days
	2013			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Millennium International Ltd	\$ 531,049	\$ -	Quarterly	90 days
First State Investments Global				
Emerging Markets Fund	2,396,385	-	Monthly	7 days
ACL Alternative Fund	576,218	-	Daily	N/A
Aurora Offshore Ltd II	666,138	-	Quarterly	95 days

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

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

Millennium International Ltd – the investment objective is to engage in the business of trading equities, fixed income products, options, futures and other financial instruments.

ACL Alternative Fund – the fund invests in a range of trading styles, including long-term trend following, short-term systematic, value, discretionary macro and specialist FX strategies.

NOTE 5 PLEDGES RECEIVABLE

Promises to give at December 31, 2014 and 2013, 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 1.72% - 4.5%.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 5 PLEDGES RECEIVABLE (CONTINUED)

The amount of the discounted promises to give at December 31, 2014 and 2013 at the realized present value is reflected below:

	2014	2013
Receivables Due in One Year	\$ 5,581,117	\$ 3,637,960
Receivables Due in Two to Five Years	6,527,284	5,315,636
Receivables Due in More than Five Years	910,000	930,000
Total Pledges Receivable	13,018,401	9,883,596
Less:		
Discount to Reduce to Present Value	419,104	316,156
Allowance for Uncollectible Pledges	125,380	22,000
Net Pledges Receivable	\$ 12,473,917	\$ 9,545,440

NOTE 6 LICENSE PLATE PROGRAMS

The Foundation has agreements with both Florida and Illinois whereby a grant is received from the states for the purpose of the Foundation providing grants for scholarships for higher education.

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 \$7,218 and \$17,604 at December 31, 2014 and 2013, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 7 OBLIGATIONS UNDER CHARITABLE TRUSTS

The Foundation received assets in 1998 under the Tipples Charitable Remainder Annuity Trust ("Trust") which requires the Foundation, as trustee of the Trust, to pay the beneficiaries of the Trust \$8,400 annually for up to ten years after the death of its initial income beneficiary. The last payment will occur in 2017. The funds remaining at the termination of the Trust will be used to fund one or more memorial scholarships. The assets of the Trust, which are included in the accompanying statements of financial position at December 31, 2014 and 2013, amounted to \$97,564 and \$103,547, respectively. The liability under the Trust, which represents the present value of the beneficiaries' annuity payments, discounted at a risk-free rate of 4.57%, amounted to \$23,301 and \$30,393 at December 31, 2014 and 2013, respectively.

The Foundation received assets in 2005 under the Cuneo Charitable Remainder Unitrust ("Unitrust"), which requires the Foundation, as trustee of the Unitrust, to pay the remaining beneficiary annually the lesser of the Unitrust income or 5% of the fair value of Unitrust assets until the beneficiary's death. The assets of the Trust, which are included in the accompanying statements of financial position at December 31, 2014 and 2013, amounted to \$686,161 and \$686,648, respectively. The liability under the Unitrust at December 31, 2014 and 2013, which represents the present value of the beneficiary's projected payments, using an assumed long-term rate of return on Unitrust assets of 8.4% at December 31, 2014 and 2013, a pay-out assumption of annual income being earned on the Unitrust assets at 3%, and a risk-free discount rate of 4.91%, amounted to \$143,611 and \$149,979, respectively.

The Foundation received assets in 2010 under the McCravey Charitable Remainder Unitrust ("McCravey Unitrust"). The McCravey Unitrust requires the Foundation as trustee to pay the beneficiary annually a portion of the McCravey Unitrust equal to 5% of the net fair value of the property until the beneficiary's death. The assets of the McCravey Unitrust, which are included in the accompanying statements of financial position at December 31, 2014 and 2013, amounted to \$1,887,679 and \$1,916,867, respectively. The liability under the McCravey Unitrust, which represents the present value of the beneficiary's payments, discounted at a risk-free rate of 1.35%, amounted to \$340,355 and \$345,618 at December 31, 2014 and 2013, respectively.

NOTE 8 LINE OF CREDIT

In December 2014, the Foundation established an unsecured revolving line of credit with a maximum loan amount of \$1,000,000, and any amounts borrowed are payable on December 21, 2015. The term is for one year and renewable annually. The balance outstanding as of December 31, 2014, is \$250,000. The line of credit accrues interest at a rate equal to prime. At December 31, 2014, the interest rate was 3.25%.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 9 AMOUNTS HELD FOR OTHERS

Amounts held for others represent funds not controlled by the Foundation and held in a custodial capacity on behalf of others. The amounts held for others relate to a revolving low-interest loan fund established by Colonel Walter and Eleanor Short for needy undergraduate students enrolled in NROTC, MECEP, and PLC programs, who are completing pre-commissioning requirements to become Marine officers. The Foundation does not control the disbursements of these funds. To date, no loans have been made.

Investments and cash equivalents at December 31, 2014 and 2013, include \$416,865 and \$416,034, respectively, representing the principal of approximately \$109,000 and appreciation of \$307,865 and \$307,034 respectively, on the Short fund.

NOTE 10 ENDOWMENT

The Foundation has donor-restricted endowment funds established for a variety of purposes. As required by U.S. generally accepted accounting principles (GAAP), net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Foundation interpreted Virginia's UPMIFA since 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 5% of a moving three-year average of the fair market value of all endowed funds as of the close of each fiscal year included in such moving average.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 10 ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to UPMIFA for the years ended December 31, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, December 31, 2012	\$ -	\$ 5,844,159	\$ 28,729,411	\$ 34,573,570
Investment Gain	-	2,783,459	-	2,783,459
Contributions Collected	-	-	3,343,240	3,343,240
Appropriations	-	(996,995)	-	(996,995)
Reclassifications	-	48,475	(1,427,504)	(1,379,029)
Endowment Net Assets, December 31, 2013	-	7,679,098	30,645,147	38,324,245
Investment Gain	-	1,363,256	-	1,363,256
Contributions Collected	-	-	2,658,938	2,658,938
Appropriations	-	(1,385,283)	-	(1,385,283)
Reclassifications	-	(140,570)	(381,298)	(521,868)
Endowment Net Assets, December 31, 2014	<u>\$ -</u>	<u>\$ 7,516,501</u>	<u>\$ 32,922,787</u>	<u>\$ 40,439,288</u>

Fund with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. The Foundation has determined that there are no donor-restricted endowment funds with deficiencies as of December 31, 2014 and 2013.

NOTE 11 RELATED PARTIES

During the years ended December 31, 2014 and 2013, the Foundation received contributions from Board members totaling \$3,549,758 and \$1,946,002, respectively. Pledges receivable from Board members are \$3,293,768 and \$2,940,924 as of December 31, 2014 and 2013, respectively.

NOTE 12 RETIREMENT PLAN

The Foundation maintains a 403(b) Retirement Plan for employees meeting certain eligibility requirements, as outlined within the Plan. Participants are eligible to make voluntary contributions to the Plan immediately upon employment. The Foundation contributes 5% of each participant's compensation upon completion of one full year of employment and credited with at least 1,000 hours of service. Contributions to the Plan by the Foundation amounted to \$107,415 and \$79,443 for the years ended December 31, 2014 and 2013, respectively.

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 13 COMMITMENTS

Operating Lease

In May 2011 the Foundation entered into a non-cancellable operating lease for office space in Alexandria, Virginia that expires in 2022. The lease calls for an annual escalation increase of 2.5% effective on the anniversary date of each term. In addition, the Foundation received \$296,300 of leasehold improvements related to the office space and six months of free rent. In accordance with accounting standards, annual rent increases and lease incentives are being amortized over the life of the lease, and as a result, the Foundation is recognizing rent expense on the straight-line basis over the lease term. The unamortized portion resulting from the difference between the amounts paid and expensed comprise the deferred rent obligation in the accompanying statements of financial position.

Total rent and operating expenses for the years ended December 31, 2014 and 2013, were \$142,647 and \$143,504, respectively.

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

<u>December 31,</u>	<u>Amount</u>
2015	\$ 171,812
2016	168,194
2017	172,399
2018	176,709
2019	181,126
Thereafter	<u>408,191</u>
Total	<u>\$ 1,278,431</u>

Hotel Commitments

The Foundation has entered into agreements with hotels for room and space accommodations. The agreements indicated that the Foundation is liable for liquidated damages in the event of cancellation. At December 31, 2014, the Foundation commitment for liquidated damages totaled approximately \$542,000.



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Marine Corps Scholarship Foundation, Inc.
Alexandria, Virginia

We have audited the financial statements of Marine Corps Scholarship Foundation, Inc., as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated July 8, 2015, 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
July 8, 2015

MARINE CORPS SCHOLARSHIP FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Program	General and Administrative	Fundraising	Total Expenses
Scholarships	\$ 6,389,979	\$ -	\$ -	\$ 6,389,979
Direct Events Expenses	3,103,512	-	-	3,103,512
Wages and Benefits	1,270,356	753,550	1,171,794	3,195,700
Legal Fees	954	62,665	14,541	78,160
Accounting Fees	-	74,288	-	74,288
Bad Debt Expense	-	119,177	-	119,177
Direct Mail	-	-	312,072	312,072
Other Professional Fees	113,073	124,670	188,471	426,214
Advertising and Promotion	70,615	212,198	120,566	403,379
Office Expenses	36,064	53,091	111,526	200,681
Information Technology	76,340	77,698	66,752	220,790
Occupancy	57,885	57,268	64,346	179,499
Travel	51,306	24,831	200,947	277,084
Meetings and Conferences	375,660	195,286	89,164	660,110
Depreciation	33,980	28,563	35,950	98,493
Insurance	-	26,996	-	26,996
Other Expense	-	26,096	69,743	95,839
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 11,579,724</u>	<u>\$ 1,836,377</u>	<u>\$ 2,445,872</u>	<u>\$ 15,861,973</u>