

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC. AND  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2023 AND 2022**



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**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
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YEARS ENDED JUNE 30, 2023 AND 2022**

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## INDEPENDENT AUDITORS' REPORT

Board of Governors  
Marine Corps Scholarship Foundation, Inc.  
Brown Hudner Navy Scholarship Foundation, Inc.  
Alexandria, Virginia

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Marine Corps Scholarship Foundation, Inc. and Brown Hudner Navy Scholarship Foundation, Inc., (the Organization) which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization, as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, in 2023, the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Marine Corps Scholarship Foundation, Inc. and Brown Hudner Navy Scholarship Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Marine Corps Scholarship Foundation, Inc. and Brown Hudner Navy Scholarship Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

Board of Governors  
Marine Corps Scholarship Foundation, Inc. and  
Brown Hudner Navy Scholarship Foundation, Inc.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
February 2, 2024

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2023 AND 2022**

<b>ASSETS</b>	2023	2022
Cash and Cash Equivalents	\$ 14,255,823	\$ 27,579,698
Receivables	1,255	-
Prepaid Expenses	701,375	481,294
Investments	131,609,439	101,990,465
Pledges Receivable, Net of Allowance	9,787,237	10,827,217
Assets Held Under Charitable Trusts and Annuities	2,822,381	2,544,218
Property and Equipment, Net	59,916	10,135
Right of Use Asset - Operating	1,476,067	-
Right of Use Asset - Financing	23,676	-
Other Assets	179,216	163,119
Total Assets	\$ 160,916,385	\$ 143,596,146
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 678,378	\$ 337,359
Scholarships Payable, Net of Allowance	9,683,105	8,860,046
Deferred Rent	-	59,815
Lease Liability - Operating Leases	1,550,423	-
Lease Liability - Financing Leases	26,077	-
Deferred Event Revenue	573,836	-
Obligations Under Charitable Trusts and Annuities	1,250,107	1,270,571
Total Liabilities	13,761,926	10,527,791
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Undesignated	36,224,225	28,627,619
Board Designated	-	3,106,706
Total Without Donor Restrictions	36,224,225	31,734,325
With Donor Restrictions:		
Promises to Give for Operations Solely Restricted for Time of Receipt	1,862,200	3,118,000
Purpose Restricted	39,273,375	37,176,062
Perpetual Endowments	69,794,659	61,039,968
Total With Donor Restrictions	110,930,234	101,334,030
Total Net Assets	147,154,459	133,068,355
Total Liabilities and Net Assets	\$ 160,916,385	\$ 143,596,146

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023				2022			
	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Total	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Total
<b>REVENUE, GAIN, AND OTHER SUPPORT</b>								
Special Events	\$ 5,148,350	\$ 2,613,610	\$ 399,099	\$ 8,161,059	\$ 6,791,047	\$ 5,568,741	\$ 425,522	\$ 12,785,310
Contributions	3,463,528	2,704,629	8,343,199	14,511,356	8,683,630	2,578,968	4,438,457	15,701,055
Other Revenue - License Plate Programs	150,000	649,768	-	799,768	150,000	619,123	-	769,123
Other Revenue - North Carolina Funds Program	40,000	-	-	40,000	27,500	-	-	27,500
Other Revenue/Change in Values of Obligations Under Charitable Trusts	514	8,761	12,393	21,668	11,851	13,144	(1,547)	23,448
Forgiveness of Paycheck Protection Program Loan	-	-	-	-	569,670	-	-	569,670
Net Assets Released from Restrictions:								
Satisfaction of Program and Time Restrictions	11,747,054	(11,747,054)	-	-	14,772,897	(14,772,897)	-	-
Total Revenue, Gain, and Other Support	<u>20,549,446</u>	<u>(5,770,286)</u>	<u>8,754,691</u>	<u>23,533,851</u>	<u>31,006,595</u>	<u>(5,992,921)</u>	<u>4,862,432</u>	<u>29,876,106</u>
<b>EXPENSES</b>								
Scholarship Programs	12,998,564	-	-	12,998,564	11,959,446	-	-	11,959,446
General and Administrative	1,633,486	-	-	1,633,486	1,334,095	-	-	1,334,095
Cost of Sales	2,689,681	-	-	2,689,681	3,041,598	-	-	3,041,598
Fundraising	3,640,840	-	-	3,640,840	3,058,994	-	-	3,058,994
Total Expenses	<u>20,962,571</u>	<u>-</u>	<u>-</u>	<u>20,962,571</u>	<u>19,394,133</u>	<u>-</u>	<u>-</u>	<u>19,394,133</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(413,125)	(5,770,286)	8,754,691	2,571,280	11,612,462	(5,992,921)	4,862,432	10,481,973
<b>NONOPERATING ACTIVITIES</b>								
Investment Gain (Loss)	4,903,025	6,611,799	-	11,514,824	(2,306,795)	(13,742,772)	-	(16,049,567)
Total Nonoperating Activities	<u>4,903,025</u>	<u>6,611,799</u>	<u>-</u>	<u>11,514,824</u>	<u>(2,306,795)</u>	<u>(13,742,772)</u>	<u>-</u>	<u>(16,049,567)</u>
<b>CHANGE IN NET ASSETS</b>	4,489,900	841,513	8,754,691	14,086,104	9,305,667	(19,735,693)	4,862,432	(5,567,594)
Net Assets - Beginning of Year	31,734,325	40,294,062	61,039,968	133,068,355	22,428,658	60,029,755	56,177,536	138,635,949
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 36,224,225</u>	<u>\$ 41,135,575</u>	<u>\$ 69,794,659</u>	<u>\$ 147,154,459</u>	<u>\$ 31,734,325</u>	<u>\$ 40,294,062</u>	<u>\$ 61,039,968</u>	<u>\$ 133,068,355</u>

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023					2022				
	Scholarship Programs	General and Administrative	Cost of Sales	Fundraising	Total	Scholarship Programs	General and Administrative	Cost of Sales	Fundraising	Total Expenses
Scholarships	\$ 10,588,561	\$ -	\$ -	\$ -	\$ 10,588,561	\$ 9,788,202	\$ -	\$ -	\$ -	\$ 9,788,202
Wages and Benefits	1,336,722	1,117,802	-	1,691,053	4,145,577	1,507,013	435,415	-	1,407,511	3,349,939
Direct Events Expenses	-	-	2,689,681	-	2,689,681	-	-	3,041,598	-	3,041,598
Professional Fees	368,018	120,944	-	210,112	699,074	202,258	58,047	-	89,724	350,029
Advertising and Promotion	90,754	89,545	-	588,938	769,237	68,580	190,510	-	590,879	849,969
Meetings and Conferences	174,116	56,429	-	145,332	375,877	57,673	111,757	-	131,772	301,202
Information Technology	120,683	59,310	-	179,704	359,697	164,806	47,110	-	131,243	343,159
Travel	163,961	12,345	-	157,697	334,003	65,898	47,739	-	205,011	318,648
Direct Mail	-	-	-	274,693	274,693	-	-	-	210,650	210,650
Occupancy	60,638	65,322	-	80,463	206,423	74,349	28,721	-	70,930	174,000
Legal and Accounting	52,447	60,930	-	65,637	179,014	-	207,012	-	-	207,012
Office Expenses	15,406	8,003	-	107,811	131,220	20,409	30,556	-	145,595	196,560
Other Expense	4,066	6,385	-	109,898	120,349	-	17,497	-	72,415	89,912
Insurance	16,735	13,459	-	20,944	51,138	-	45,021	-	-	45,021
Depreciation and Amortization	6,457	23,012	-	8,558	38,027	10,258	10,060	-	3,264	23,582
Bad Debt Expense	-	-	-	-	-	-	104,650	-	-	104,650
<b>Total Functional Expenses</b>	<b>\$ 12,998,564</b>	<b>\$ 1,633,486</b>	<b>\$ 2,689,681</b>	<b>\$ 3,640,840</b>	<b>\$ 20,962,571</b>	<b>\$ 11,959,446</b>	<b>\$ 1,334,095</b>	<b>\$ 3,041,598</b>	<b>\$ 3,058,994</b>	<b>\$ 19,394,133</b>

See accompanying Notes to Consolidated Financial Statements.



**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 14,086,104	\$ (5,567,594)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Permanently Restricted Contributions	(8,754,691)	(4,862,432)
Depreciation	27,583	23,582
Amortization of Right of Use Asset	10,444	-
Realized Loss (Gain) on Sales of Investments	3,966,202	(7,357,443)
Unrealized (Gain) Loss on Investments	(11,163,444)	25,765,413
Forgiveness of Paycheck Protection Program Loan	-	(569,670)
Bad Debt Expense	-	104,650
Change in Assets and Liabilities:		
Receivables	(1,255)	86,284
Prepaid Expenses	(220,081)	381,006
Pledges Receivable	1,039,980	2,945,825
Other Assets	(16,097)	(27,025)
Accounts Payable and Accrued Expenses	341,019	(254,860)
Scholarships Payable	823,059	848,842
Deferred Rent	(59,815)	547
Lease assets and liabilities	76,757	-
Deferred Revenue	573,836	-
Net Cash Provided by Operating Activities	729,601	11,517,125
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments	(53,575,685)	(150,206,590)
Proceeds from Sales of Investments	30,873,497	138,000,366
Purchases of Property and Equipment	(75,443)	(6,272)
Net Cash Used by Investing Activities	(22,777,631)	(12,212,496)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts Under Charitable Trusts and Annuities	(20,464)	10,688
Contributions with Donor Restrictions - Perpetuity	8,754,691	4,862,432
Payments on Finance Leases	(10,072)	-
Net Cash Provided by Financing Activities	8,724,155	4,873,120
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(13,323,875)	4,177,749
Cash and Cash Equivalents - Beginning of Year	27,579,698	23,401,949
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 14,255,823	\$ 27,579,698
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION</b>		
Receipt of Donated Stock	\$ 319,286	\$ 4,686,071

See accompanying Notes to Consolidated Financial Statements.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Marine Corps Scholarship Foundation, Inc. (MCSF) is the Nation's oldest and largest provider of need-based scholarships to military children. Founded in 1962, the Marine Corps Scholarship Foundation provides post-secondary scholarship support to the children of Marines, Navy Corpsmen, Navy Chaplains, and Religious Program Specialists.

MCSF includes 19 unincorporated committees, which carry out special events for MCSF 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 consolidated financial statements as they are an integral part of MCSF.

In February 2022, the Brown Hudner Navy Scholarship Foundation (BHNSF), a nonprofit organization as defined under Section 501(c)(3) of the Internal Revenue Code (IRC), was formed. Inspired by the true story of Jesse Brown and Tom Hudner, the Brown Hudner Navy Scholarship Foundation (BHNSF) honors Navy Sailors by providing post-secondary scholarship support to their children. BHNSF is managed by the Marine Corps Scholarship Foundation.

While MCSF and BHNSF, collectively referred to as the Organization, operate as separate entities, the consolidated financial reporting of the entities is required to be consolidated under accounting standards as both entities share a common board of directors. Significant intercompany accounts and transactions have been eliminated in consolidation.

**Income Tax Status**

The Organization is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the IRC. The Organization has received from the IRS a favorable ruling that it is recognized as a "public charity" within the meaning of IRC Section 170(b)(1)(A)(vi) and thus, meets the exception to private foundation status under section 509(a)(1).

The Organization adopted the income tax standard for uncertain income tax positions. The Organization evaluated its tax positions and determined that their positions are more likely than not to be sustained on examination. The Organization's income tax returns are subject to review and examination by federal and state authorities.

**Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

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

**Cash and Cash Equivalents**

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

**Receivables**

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

**Investments**

Investments in marketable securities with readily determinable fair values are stated at their fair values in the accompanying consolidated statements of financial position. MCSF 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 has established an allowance of \$60,000 as of June 30, 2023 and 2022, 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 to 7 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. MCSF leases office space and equipment. MCSF determines if an arrangement is a lease at inception. Operating leases are included in ROU assets – operating and lease liability – operating, and finance leases are included in right of use assets – financing and lease liability – financing in the balance sheet.

**Leases**

The MCSF determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases are included in right-of-use (ROU) assets – financing and lease liability – financing in the consolidated statements of financial position.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

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

**Leases (Continued)**

ROU assets represent the MCSF 's right to use an underlying asset for the lease term and lease liabilities represent the MCSF 's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the MCSF will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The MCSF has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the consolidated statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the MCSF has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

**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.

**Net Assets**

To ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, 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 Organization available to support general operations and exempt purpose programs. The June 30, 2023 and 2022 balance was \$36,224,225 and \$28,627,619 respectively. At June 30, 2023 and 2022, there were \$1,862,200 and \$3,118,000, respectively, in multi-year pledges receivable to fund operations and exempt purpose programs in future years that are not included, 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.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

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

**Net Assets (Continued)**

***Board-Designated:*** From time to time, the board of directors of the Organization may designate net assets without donor restrictions for the purposes of building and maintaining an adequate level to support the Organization'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, 2023 and 2022, board-designated net assets were \$0 and \$3,106,706 respectively.

**With Donor Restrictions**

***Time and Purpose:*** Represents resources, including earnings on perpetual endowments, which are subject to donor-imposed purpose or time restrictions. Purpose restrictions are for scholarships.

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

**Reclassification of Net Assets**

The Organization 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 – purpose and time 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 net assets with donor restrictions – perpetuity, endowed funds.

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

The Organization'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 – purpose and time 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 consolidated statements of activities as net assets released from restrictions.

**Special Events**

Throughout the year, committees conduct various scholarship balls, golf tournaments, and other ancillary events to increase visibility of the Organization's mission and to provide support to its scholarship programs. The Organization also conducts special events through a combined effort of committees and their national office.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

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

**Special Events (Continued)**

The Organization receives various levels of sponsorships from their sponsors. Sponsorships and ticket sales are bifurcated into their exchange and nonexchange components. Revenue is recognized when the sponsorship benefits are delivered to the sponsor typically at the time of the sponsored event when the conditions and performance obligations are met. Future year event sponsorships are deemed conditional until the event takes place in respective fiscal years, unless the sponsor explicitly waives the condition of the event taking place and are recorded as deferred event revenue in the consolidated statement of financial position. Total deferred event revenue representing exchange components was \$129,715 and \$0 as of June 30, 2023 and 2022, respectively. Total beginning balance of exchange components was \$0 as of June 30, 2023 and 2022.

Total special events revenue that represented exchange transactions as of June 30, 2023 and 2022 was \$1,844,803 and \$2,075,055, respectively.

**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 Organization 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 consolidated financial statements.

Approximately 64% and 35% of the contribution revenue was comprised from four and two donors during the year ended June 30, 2023, and 2022, respectively.

**Scholarships**

Scholarships are awarded for a period of one academic year. It is MCSF's policy to accrue scholarships at the date awarded. During the years ended June 30, 2023 and 2022, MCSF awarded 2,758 and 2,600 totaling \$10,800,000 and \$10,000,000, for use during the 2023-2024 and 2022-2023 academic year, respectively. The award amount is prior to any current year reductions, refunds, and withdrawals. Total scholarship expense for the years ended June 30, 2023 and 2022, was \$10,588,561 and \$9,788,202.

**Functional Allocation of Expenses**

The costs of program and supporting services have been summarized on a functional basis in the accompanying consolidated statements 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.

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**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 Organization 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 Organization'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 Organization 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 consolidated statement 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 Organization 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.

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

**Measure of Operations**

The accompanying consolidated statements of activities distinguishes between operating and nonoperating activities. Operating activities include all revenues and expenses that are an integral part of the Organization's program and supporting services. Nonoperating activities include all investment gains and losses.

**Liquidity**

As a part of its liquidity management plan, the Organization invests cash in excess of daily requirements in various investments based on the Organization's investment policy. The Organization's financial assets available for general expenditure within one year of the consolidated statements of financial position date are as follows:

	2023	2022
Cash and Cash Equivalents	\$ 14,255,823	\$ 27,579,698
Receivables	1,255	-
Investments	131,609,439	101,990,465
Pledges Receivable, Net of Allowance	9,787,237	10,827,217
Total	<u>155,653,754</u>	<u>140,397,380</u>
Less: Net Assets with Donor Restrictions	<u>(110,930,234)</u>	<u>(101,334,030)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 44,723,520</u>	<u>\$ 39,063,350</u>

**Adoption of New Accounting Standards**

**Leases**

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The MCSF adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the fiscal year ended June 30, 2023.

MCSF has elected to adopt the package of practical expedients available in the year of adoption. MCSF has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of organization's ROU assets.



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

**Reclassifications**

Certain prior period year balances have been reclassified to conform with the current year presentation. These reclassifications had no effect on changes in net assets.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through **REPORT DATE**, the date the consolidated financial statements were available to be issued.

**NOTE 2 CONCENTRATIONS OF RISK**

**Credit Risk**

Financial instruments that subject the Organization 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 Organization'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 consolidated statement of financial position.

**NOTE 3 INVESTMENTS**

Investments comprise the following at June 30, 2023 and 2022:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Cash and Money Market	\$ 7,849,794	\$ 7,849,794	\$ 1,769,369	\$ 1,769,369
Equity Securities	49,336,152	48,679,456	45,831,280	38,451,340
Mutual Funds - Fixed Income	42,608,400	39,785,183	34,526,028	30,303,123
ETF - Equities	15,442,431	15,032,058	13,841,267	11,050,039
Mutual Funds - Equities	11,873,407	10,998,878	10,498,254	8,243,912
Mutual Funds - Real Estate	7,354,356	6,181,427	6,390,237	5,991,828
Hedge Funds	5,992,355	5,905,024	4,528,771	4,438,197
Fixed Income Securities	-	-	4,679,717	4,286,875
Total	<u>\$ 140,456,894</u>	<u>\$ 134,431,820</u>	<u>\$ 122,064,923</u>	<u>\$ 104,534,683</u>

The estimated fair value of the Organization'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.

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**NOTE 3 INVESTMENTS (CONTINUED)**

Investments are reported in the accompanying consolidated statement of financial position as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Investments	\$ 131,609,439	\$ 101,990,465
Assets Held Under Charitable Trusts and Annuities	2,822,381	2,544,218
Total	<u>\$ 134,431,820</u>	<u>\$ 104,534,683</u>

Investment loss is comprised of the following for the year ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest and Dividend Income	\$ 4,722,866	\$ 2,694,084
Unrealized Gain (Loss) on Investments	11,163,444	(25,765,413)
Realized (Loss) Gain on Sales of Investments	(3,966,202)	7,357,443
Less: Investment Fees	(405,284)	(335,681)
Total	<u>\$ 11,514,824</u>	<u>\$ (16,049,567)</u>

**NOTE 4 FAIR VALUE MEASUREMENTS**

The following is a summary of the fair value measurements of the Organization's investments within the fair value hierarchy, with a disclosure of the hedge funds measured at NAV to allow reconciliation to the consolidated statement of financial position at June 30, 2023 and 2022:

	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<u>Investments</u>				
Cash and Money Market	\$ 7,781,259	\$ -	\$ -	\$ 7,781,259
Equity Securities	48,679,456	-	-	48,679,456
Mutual Funds - Fixed income	39,310,171	-	-	39,310,171
ETF - Equities	14,712,968	-	-	14,712,968
Mutual Funds - Equities	9,177,776	-	-	9,177,776
Mutual Funds - Real Estate	6,042,785	-	-	6,042,785
Subtotal	125,704,415	-	-	125,704,415
Hedge Fund Measured at NAV:				
Blackstone Private Credit Fund Class I				2,926,679
Owl Rock Core Income Corp. Class I				2,978,345
Total Hedge Funds				<u>5,905,024</u>
Subtotal				131,609,439
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	68,535	-	-	68,535
Mutual Funds - Equities	1,821,102	-	-	1,821,102
Mutual Funds - Fixed income	475,012	-	-	475,012
Mutual Funds - Real Estate	138,642	-	-	138,642
ETF - Equities	319,090	-	-	319,090
Subtotal	<u>2,822,381</u>	<u>-</u>	<u>-</u>	<u>2,822,381</u>
Total Investments	<u>\$ 128,526,796</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,431,820</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

	2022			Total
	Level 1	Level 2	Level 3	
<u>Investments</u>				
Cash and Money Market	\$ 1,728,910	\$ -	\$ -	\$ 1,728,910
Equity Securities	38,451,340	-	-	38,451,340
Mutual Funds - Fixed income	29,904,296	-	-	29,904,296
ETF - Equities	11,036,401	-	-	11,036,401
Mutual Funds - Equities	6,292,571	-	-	6,292,571
Mutual Funds - Real Estate	5,851,875	-	-	5,851,875
Fixed Income Securities	-	4,286,875	-	4,286,875
Subtotal	93,265,393	4,286,875	-	97,552,268
Hedge Fund Measured at NAV:				
Blackstone Private Credit Fund Class I				2,223,273
Owl Rock Core Income Corp. Class I				2,214,924
Total Hedge Funds				4,438,197
Subtotal				101,990,465
<u>Assets Held Under Charitable Trusts and Annuities</u>				
Cash and Money Market	40,459	-	-	40,459
Mutual Funds - Equities	1,951,341	-	-	1,951,341
Mutual Funds - Fixed income	398,827	-	-	398,827
Mutual Funds - Real Estate	139,953	-	-	139,953
ETF - Equities	13,638	-	-	13,638
Subtotal	2,544,218	-	-	2,544,218
Total Investments	\$ 95,809,611	\$ 4,286,875	\$ -	\$ 104,534,683

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 amounts presented in the consolidated statement of financial position.

The investment objective of the Blackstone Private Credit Fund is to achieve current income and capital appreciation by primarily investing in privately originated and private negotiated senior secured loans to U.S. companies, including those in the middle markets. Redemptions could generally be made at the net asset value of the last business day of each calendar quarter. There are no unfunded future commitments at June 30, 2023 and 2022.

The investment objective of the Owl Rock Income Corp. Fund is to achieve current income, and capital appreciation by targeting investment opportunities with favorable risk-adjusted returns. Redemptions could generally be made at the net asset value of the last business day of each calendar quarter. There are no unfunded future commitments at June 30, 2023 and 2022.

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**NOTE 5 PLEDGES RECEIVABLE**

Promises to give at June 30, 2023 and 2022, 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 0.27%-3.93% and 0.27% - 2.94% respectively.

The amount of the discounted promises to give at June 30, 2023 and 2022, at the realized present value is reflected below:

	2023	2022
Receivables Due in One Year	\$ 5,116,545	\$ 5,354,231
Receivables Due in Two to Five Years	4,872,500	5,482,000
Receivables Due in More than Five Years	200,000	368,000
Total Pledges Receivable	<u>10,189,045</u>	<u>11,204,231</u>
Less:		
Discount to Reduce to Present Value	(341,808)	(317,014)
Allowance for Uncollectible Pledges	(60,000)	(60,000)
Net Pledges Receivable	<u>\$ 9,787,237</u>	<u>\$ 10,827,217</u>

Approximately 72% and 57% of the Organization's pledges receivable balance was comprised from two and one individual donor at June 30, 2023 and 2022, respectively.

**NOTE 6 LICENSE PLATE PROGRAMS**

MCSF has agreements with Florida and the Marine Corps Coordinating Council of Illinois whereby a grant is received from the states for the purpose of MCSF providing grants for scholarships for higher education. In addition, MCSF receives contributions without donor restrictions from the Arizona license plate program that started in 2015. During the years ended June 30, 2023 and 2022, MCSF received contribution revenue in the amount of \$150,000 from the state of Arizona.

As part of the Florida License Plate Program, MCSF 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, MCSF 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 MCSF. JROTC and Young Marines programs payable balances representing approved scholarships were \$59,105 and \$66,446 at June 30, 2023 and 2022, respectively.

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 and U.S. Navy Corpsman, Chaplain or Religious Programs Specialist who is/was attached to a U.S. Marine Corps unit that meet the academic, financial, and other requirements established by MCSF and states of the license plate program.

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**NOTE 7 PROPERTY AND EQUIPMENT, NET**

Property and equipment, net of accumulated depreciation, is comprised on the following for the years ended June 30, 2023 and 2022:

	2023	2022
Furniture and Equipment	\$ 470,597	\$ 399,270
Leasehold Improvements	328,791	328,791
Software and Website Development	304,908	304,908
Total Property and Equipment	1,104,296	1,032,969
Less: Accumulated Depreciation and Amortization	(1,044,380)	(1,022,834)
Net Property and Equipment	\$ 59,916	\$ 10,135

**NOTE 8 PAYCHECK PROTECTION PROGRAM**

In March 2021, the Organization received a loan from a financial institution in the amount of \$569,670 to fund payroll, rent, and utilities through the Paycheck Protection Program (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date.

The submission of loan forgiveness to the financial institution was made during fiscal year 2022 and, in April 2022, the PPP Loan was forgiven in full and paid by the SBA to the financial institution. The recognition of debt forgiveness is presented as Forgiveness of Paycheck Protection Program Loan in the accompanying consolidated statement of activities for the year ended June 30, 2022.

The SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's consolidated financial position.

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**NOTE 9 OBLIGATIONS UNDER CHARITABLE TRUSTS AND ANNUITIES**

MCSF received assets in 2005 under the Cuneo Charitable Remainder Unitrust (Unitrust), which requires MCSF, 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 Unitrust, which are included in the accompanying consolidated statements of financial position at June 30, 2023 and 2022, totaled \$811,478 and \$753,686, respectively. The liability under the Unitrust at June 30, 2023 and 2022, which represents the present value of the beneficiary's projected payments, using an assumed long-term rate of return on Unitrust assets of 5% at June 30, 2023 and 2022, a pay-out assumption of annual income being earned on the Unitrust assets at 2.5% at June 30, 2023 and 2022, and a risk-free discount rate of 4.91%, totaled \$92,481 and \$85,984, respectively.

MCSF began receiving assets under charitable gift annuities in 2015. These agreements represent an irrevocable transfer of investments to MCSF. In return, the donors receive a promise from MCSF 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, 2023 and 2022, was \$2,792,381 and \$2,543,920, respectively. The corresponding liability related to all future estimated payments to donors (actuarially determined based on life expectancy tables, estimated inflation, and rates of return, etc.) has been recorded within obligations under charitable trusts and annuities in the accompanying consolidated statements of financial position. The balance at June 30, 2023 and 2022, was \$1,157,626 and \$1,184,677, respectively.

**NOTE 10 ENDOWMENTS**

MCSF 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 MCSF 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. As a result of this interpretation, MCSF 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 MCSF in a manner consistent with the standard of prudence prescribed by UPMIFA.

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**NOTE 10 ENDOWMENTS (CONTINUED)**

MCSF's endowment investment policy objectives are to protect the principal, earn a return, satisfy the payout requirement, and provide growth. MCSF'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 MCSF'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 MCSF 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 MCSF'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 MCSF'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.

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**NOTE 10 ENDOWMENTS (CONTINUED)**

	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Total
Endowment Net Assets, June 30, 2021	\$ -	\$ 21,439,506	\$ 55,258,486	\$ 76,697,992
Investment Income	-	(10,092,365)	-	(10,092,365)
Contributions Collected	-	-	5,087,727	5,087,727
Appropriations	-	(2,700,031)	-	(2,700,031)
Reclassifications	-	(431,760)	50	(431,710)
Endowment Net Assets, June 30, 2022	-	8,215,350	60,346,263	68,561,613
Investment Loss	-	7,222,235	-	7,222,235
Contributions Collected	-	-	6,331,895	6,331,895
Appropriations	-	(2,891,555)	-	(2,891,555)
Reclassifications	-	(430,315)	500	(429,815)
Endowment Net Assets, June 30, 2023	<u>\$ -</u>	<u>\$ 12,115,715</u>	<u>\$ 66,678,658</u>	<u>\$ 78,794,373</u>
Endowment Net Assets, June 30, 2022			\$ 60,346,263	
Pledges Receivable, Net of Allowance			<u>693,705</u>	
Endowment Net Assets, June 30, 2022			<u>\$ 61,039,968</u>	
Endowment Net Assets, June 30, 2023			\$ 66,678,658	
Pledges Receivable, Net of Allowance			<u>3,116,001</u>	
Endowment Net Assets, June 30, 2023			<u>\$ 69,794,659</u>	

**Fund with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. At June 30, 2023 and 2022, deficiencies of this nature existed in 10 and 19 donor-restricted endowment funds, which had an original gift value of \$3,126,687 and \$10,169,628, a current fair value of \$2,898,210 and \$9,296,778, and a deficiency of \$218,035 and \$872,850 as of June 30, 2023 and 2022, respectively. Such deficiencies are primarily a result of unfavorable market fluctuations that occurred after the investment of contributions for donor-restricted endowment funds and continued appropriation for scholarship programs that were deemed prudent by the board of directors.



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**NOTE 11 RELATED PARTIES**

For the years ended June 30, 2023 and 2022, the Organization recognized contributions from the board in the amount of \$605,065 and \$751,321, respectively. Pledges receivable from board members totaled \$905,000 and \$1,180,000 at June 30, 2023 and 2022, respectively.

**NOTE 12 RETIREMENT PLAN**

The Organization 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 Organization 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 Organization totaled \$118,618 and \$112,424 years ended June 30, 2023 and 2022, respectively.

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

**Leases-ASU 842**

The MCSF determines if an arrangement is a lease at inception. Operating leases are included in (ROU) assets – operating and lease liability – operating, and finance leases are included in the right of use assets-financing and lease liability-financing in the consolidated statements of financial position.

ROU assets represent the MCSF's right to use an underlying asset for the lease term and lease liabilities represent the MCSF's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that MCSF will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The MSCF has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the consolidated statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the MCSF has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of all lease liabilities.

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Lease-ASU 842 (Continued)**

MCSF leases equipment as well as its office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2032 and provides renewal options for two additional consecutive five-year periods. Under the lease agreement, the MCSF must deliver written notice to renew at least 12 months prior to the expiration date to renew the lease arrangements. As of June 30, 2023, it is uncertain whether this renewal option will be exercised. Additionally, the agreement generally requires the MCSF to pay real estate taxes, insurance, and repairs.

The following tables provide quantitative information concerning the MCSF's office lease for the year ended June 30, 2023:

Lease Costs

Finance Lease Costs	
Amortization of Right-of-Use Assets	\$ 10,444
Interest on Lease Liabilities	1,987
Operating Lease Cost	194,199
Total Lease Cost	<u>\$ 206,630</u>

**Other Information**

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:

Operating Cash Flows from Finance Leases	\$ 1,988
Operating Cash Flows from Operating Leases	\$ 179,659
Financing Cash Flows From Finance Leases	\$ 10,072

Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 1,623,941
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Weighted-Average Remaining Lease Term - Financing Leases	2.4 Years
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Weighted-Average Remaining Lease Term - Operating Leases	8.6 Years
Weighted-Average Discount Rate - Financing Leases	6.50%
Weighted-Average Discount Rate - Operating Leases	2.88%

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Lease-ASU 842 (Continued)**

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Year Ending June 30.</u>	<u>Operating</u>	<u>Finance</u>	<u>Totals</u>
2024	\$ 184,151	\$ 12,060	\$ 196,210
2025	188,754	12,060	200,814
2026	193,473	3,958	197,432
2027	198,310	-	198,310
2028	203,268	-	203,268
Thereafter	789,461	-	789,461
Undiscounted Cash Flows	<u>1,757,418</u>	<u>28,078</u>	<u>1,785,495</u>
Less: Imputed Interest	<u>(206,994)</u>	<u>(2,001)</u>	<u>(208,995)</u>
Total Present Value	<u>\$ 1,550,424</u>	<u>\$ 26,077</u>	<u>\$ 1,576,500</u>
Short-Term Lease Liabilities	\$ 141,786	\$ 10,746	\$ 152,532
Long-Term Lease Liabilities	<u>1,408,636</u>	<u>15,331</u>	<u>1,423,967</u>
Total	<u>\$ 1,550,421</u>	<u>\$ 26,077</u>	<u>\$ 1,576,498</u>

**Other Commitments**

The MCSF has entered into agreements with hotels for room and space accommodations and various event providers for services. The agreements indicated that the MSCF is liable for liquidated damages in the event of cancellation. At June 30, 2023 and 2022, the MCSF's commitment for liquidated damages totaled approximately \$467,000 and \$434,000, respectively.

**NOTE 14 CONDITIONAL PROMISE TO GIVE**

During the year ended June 30, 2022, the Organization entered into a gift agreement with a donor that conveyed certain asset rights related to a financing agreement the donor entered into with a film production company. The Organization is to receive "Equity Recoupment Payments" subject to terms and conditions of the financing agreement. According to the agreement, the gift is to be allocated equally between MCSF and BHNSF. The donor's intent is to make a \$65-million contribution to the Organization pursuant to the financing agreement. Management acknowledges that the gift is subject to the occurrence of certain events and conditions as set forth in the financing agreement, which are outside the donor's control. Accordingly, under generally accepted accounting principles, conditional gifts, or conditional promises to give are not recognized for financial statement reporting purposes as a contribution until all barriers that have right of return implications are met. As of June 30, 2023, satisfaction of such conditions was not met.



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Governors  
Marine Corps Scholarship Foundation, Inc.  
Brown Hudner Navy Scholarship Foundation, Inc.  
Alexandria, Virginia

We have audited the consolidated financial statements of the Marine Corps Scholarship Foundation, Inc. and Brown Hudner Navy Scholarship Foundation, Inc. as of and for the years ended June 30, 2023 and 2022, and have issued our report thereon dated February 2, 2024, which expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
February 2, 2024

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2023  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information 2023			Consolidated Total
	MCSF	BHNSF	Eliminations	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 13,992,363	\$ 263,460	\$ -	\$ 14,255,823
Receivables	340,112	-	(338,857)	1,255
Prepaid Expenses	701,375	-	-	701,375
Investments	131,609,439	-	-	131,609,439
Pledges Receivable, Net of Allowance	9,787,237	-	-	9,787,237
Assets Held Under Charitable Trusts and Annuities	2,822,381	-	-	2,822,381
Property and Equipment, Net	24,256	35,660	-	59,916
Right of Use Asset - Operating	1,476,067	-	-	1,476,067
Right of Use Asset - Financing	23,676	-	-	23,676
Other Assets	179,216	-	-	179,216
	<u>\$ 160,956,122</u>	<u>\$ 299,120</u>	<u>\$ (338,857)</u>	<u>\$ 160,916,385</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 668,026	\$ 349,209	\$ (338,857)	\$ 678,378
Scholarships Payable, Net of Allowance	9,563,105	120,000	-	9,683,105
Lease Liability - Operating Leases	1,550,423	-	-	1,550,423
Lease Liability - Financing Leases	26,077	-	-	26,077
Deferred Event Revenue	573,836	-	-	573,836
Obligations Under Charitable Trusts and Annuities	1,250,107	-	-	1,250,107
Total Liabilities	<u>13,631,574</u>	<u>469,209</u>	<u>(338,857)</u>	<u>13,761,926</u>
<b>NET ASSETS (NET DEFICITS)</b>				
Without Donor Restrictions:				
Undesignated	<u>36,394,314</u>	<u>(170,089)</u>	<u>-</u>	<u>36,224,225</u>
Total Without Donor Restrictions	<u>36,394,314</u>	<u>(170,089)</u>	<u>-</u>	<u>36,224,225</u>
With Donor Restrictions:				
Promises to Give for Operations Solely				
Restricted for Time of Receipt	1,862,200	-	-	1,862,200
Purpose Restricted	39,273,375	-	-	39,273,375
Perpetual Endowments	69,794,659	-	-	69,794,659
Total With Donor Restrictions	<u>110,930,234</u>	<u>-</u>	<u>-</u>	<u>110,930,234</u>
Total Net Assets (Net Deficits)	<u>147,324,548</u>	<u>(170,089)</u>	<u>-</u>	<u>147,154,459</u>
Total Liabilities and Net Assets	<u>\$ 160,956,122</u>	<u>\$ 299,120</u>	<u>\$ (338,857)</u>	<u>\$ 160,916,385</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2022  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information 2022			Consolidated
	MCSF	BHNSF	Eliminations	Total
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 27,579,698	\$ -	\$ -	\$ 27,579,698
Receivables	115,474	-	(115,474)	-
Prepaid Expenses	481,294	-	-	481,294
Investments	101,990,465	-	-	101,990,465
Pledges Receivable, Net of Allowance	10,577,217	250,000	-	10,827,217
Assets Held Under Charitable Trusts and Annuities	2,544,218	-	-	2,544,218
Property and Equipment, Net	10,135	-	-	10,135
Other Assets	163,119	-	-	163,119
	<u>143,461,620</u>	<u>250,000</u>	<u>(115,474)</u>	<u>143,596,146</u>
Total Assets	<u>\$ 143,461,620</u>	<u>\$ 250,000</u>	<u>\$ (115,474)</u>	<u>\$ 143,596,146</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 326,858	\$ 125,975	\$ (115,474)	\$ 337,359
Scholarships Payable, Net of Allowance	8,860,046	-	-	8,860,046
Deferred Rent	59,815	-	-	59,815
Obligations Under Charitable Trusts and Annuities	1,270,571	-	-	1,270,571
Total Liabilities	<u>10,517,290</u>	<u>125,975</u>	<u>(115,474)</u>	<u>10,527,791</u>
<b>NET ASSETS</b>				
Without Donor Restrictions:				
Undesignated	28,503,594	124,025	-	28,627,619
Board Designated	3,106,706	-	-	3,106,706
Total Without Donor Restrictions	<u>31,610,300</u>	<u>124,025</u>	<u>-</u>	<u>31,734,325</u>
With Donor Restrictions:				
Unrestricted Promises to Give for				
Operations Solely Restricted for Time of Receipt	3,118,000	-	-	3,118,000
Purpose Restricted	37,176,062	-	-	37,176,062
Perpetual Endowments	61,039,968	-	-	61,039,968
Total With Donor Restrictions	<u>101,334,030</u>	<u>-</u>	<u>-</u>	<u>101,334,030</u>
Total Net Assets	<u>132,944,330</u>	<u>124,025</u>	<u>-</u>	<u>133,068,355</u>
Total Liabilities and Net Assets	<u>\$ 143,461,620</u>	<u>\$ 250,000</u>	<u>\$ (115,474)</u>	<u>\$ 143,596,146</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2023  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information 2023						Eliminations	Consolidated Total
	MCSF			BHNSF				
	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity		
<b>REVENUE, GAIN, AND OTHER SUPPORT</b>								
Special Events	\$ 5,148,350	\$ 2,613,610	\$ 399,099	\$ -	\$ -	\$ -	\$ -	\$ 8,161,059
Contributions	3,441,054	2,704,629	8,343,199	22,474	-	-	-	14,511,356
Other Revenue - License Plate Programs	150,000	649,768	-	-	-	-	-	799,768
Other Revenue - North Carolina Funds Program	40,000	-	-	-	-	-	-	40,000
Other Revenue/Change in Values of Obligations Under Charitable Trusts	514	8,761	12,393	-	-	-	-	21,668
Net Assets Released from Restrictions:								
Satisfaction of Program and Time Restrictions	11,747,054	(11,747,054)	-	-	-	-	-	-
Total Revenue, Gain, and Other Support	<u>20,526,972</u>	<u>(5,770,286)</u>	<u>8,754,691</u>	<u>22,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,533,851</u>
<b>EXPENSES</b>								
Scholarship Programs	12,828,839	-	-	169,725	-	-	-	12,998,564
General and Administrative	1,486,623	-	-	146,863	-	-	-	1,633,486
Cost of Sales	2,689,681	-	-	-	-	-	-	2,689,681
Fundraising	3,640,840	-	-	-	-	-	-	3,640,840
Total Expenses	<u>20,645,983</u>	<u>-</u>	<u>-</u>	<u>316,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,962,571</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(119,011)	(5,770,286)	8,754,691	(294,114)	-	-	-	2,571,280
<b>NONOPERATING ACTIVITIES</b>								
Investment Gain	4,903,025	6,611,799	-	-	-	-	-	11,514,824
Total Nonoperating Activities	<u>4,903,025</u>	<u>6,611,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,514,824</u>
<b>CHANGE IN NET ASSETS</b>	4,784,014	841,513	8,754,691	(294,114)	-	-	-	14,086,104
Net Assets - Beginning of Year	<u>31,610,300</u>	<u>40,294,062</u>	<u>61,039,968</u>	<u>124,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,068,355</u>
<b>NET ASSETS (NET DEFICITS) - END OF YEAR</b>	<u>\$ 36,394,314</u>	<u>\$ 41,135,575</u>	<u>\$ 69,794,659</u>	<u>\$ (170,089)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,154,459</u>

**MARINE CORPS SCHOLARSHIP FOUNDATION, INC.  
BROWN HUDNER NAVY SCHOLARSHIP FOUNDATION, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

	Consolidating Information 2022						Eliminations	Consolidated Total
	MCSF			BHNSF				
	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity	Without Donor Restrictions	With Donor Restrictions - Time and Purpose	With Donor Restrictions - Perpetuity		
<b>REVENUE, GAIN, AND OTHER SUPPORT</b>								
Special Events	\$ 6,791,047	\$ 5,568,741	\$ 425,522	\$ -	\$ -	\$ -	\$ -	\$ 12,785,310
Contributions	8,393,630	2,578,968	4,438,457	290,000	-	-	-	15,701,055
Other Revenue - License Plate Programs	150,000	619,123	-	-	-	-	-	769,123
Other Revenue - North Carolina Funds Program	27,500	-	-	-	-	-	-	27,500
Other Revenue/Change in Values of Obligations Under Charitable Trusts	11,851	13,144	(1,547)	-	-	-	-	23,448
Forgiveness of Paycheck Protection Program Loan	569,670	-	-	-	-	-	-	569,670
Net Assets Released from Restrictions:								
Satisfaction of Program and Time Restrictions	14,772,897	(14,772,897)	-	-	-	-	-	-
Total Revenue, Gain, and Other Support	<u>30,716,595</u>	<u>(5,992,921)</u>	<u>4,862,432</u>	<u>290,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,876,106</u>
<b>EXPENSES</b>								
Scholarship Programs	11,959,446	-	-	-	-	-	-	11,959,446
General and Administrative	1,168,120	-	-	165,975	-	-	-	1,334,095
Cost of Sales	3,041,598	-	-	-	-	-	-	3,041,598
Fundraising	3,058,994	-	-	-	-	-	-	3,058,994
Total Expenses	<u>19,228,158</u>	<u>-</u>	<u>-</u>	<u>165,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,394,133</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	11,488,437	(5,992,921)	4,862,432	124,025	-	-	-	10,481,973
<b>NONOPERATING ACTIVITIES</b>								
Investment Loss	(2,306,795)	(13,742,772)	-	-	-	-	-	(16,049,567)
Total Nonoperating Activities	<u>(2,306,795)</u>	<u>(13,742,772)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,049,567)</u>
<b>CHANGE IN NET ASSETS</b>	9,181,642	(19,735,693)	4,862,432	124,025	-	-	-	(5,567,594)
Net Assets - Beginning of Year	<u>22,428,658</u>	<u>60,029,755</u>	<u>56,177,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,635,949</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 31,610,300</u>	<u>\$ 40,294,062</u>	<u>\$ 61,039,968</u>	<u>\$ 124,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,068,355</u>