

**MARINE CORPS – LAW ENFORCEMENT  
FOUNDATION, INC.**

Financial Statements  
Years Ended  
December 31, 2014 and 2013  
&  
Independent Auditors' Report

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# FISCHER BARR & WISSINGER LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## Independent Auditors' Report

To The Board of Directors  
Marine Corps – Law Enforcement Foundation, Inc.

We have audited the accompanying financial statements of Marine Corps – Law Enforcement Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses 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.

### *Auditor's Responsibility*

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

*Fischer Barr & Wissinger LLC*

Parsippany, New Jersey  
February 25, 2015

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**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**(A NOT-FOR-PROFIT ORGANIZATION)**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

	2014	2013
<b><u>ASSETS</u></b>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,748,225	\$ 2,478,414
Investments	8,440,206	7,923,281
Prepaid rent	3,900	-
<b>TOTAL CURRENT ASSETS</b>	<b>10,192,331</b>	<b>10,401,695</b>
EQUIPMENT, less accumulated depreciation of \$1,145 (2014) and \$1,111 (2013)	-	34
OTHER ASSET, Security deposit	650	650
<b>TOTAL ASSETS</b>	<b>\$ 10,192,981</b>	<b>\$ 10,402,379</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses	\$ 3,292	\$ 2,983
<b>NET ASSETS</b>		
Unrestricted	10,189,689	10,399,396
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,192,981</b>	<b>\$ 10,402,379</b>

See Notes to Financial Statements.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**(A NOT-FOR-PROFIT ORGANIZATION)**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>REVENUE AND SUPPORT</b>		
Contributions	\$ 1,369,244	\$ 1,366,546
Special events	2,168,629	2,418,354
Investment income	443,035	251,156
	3,980,908	4,036,056
<b>TOTAL REVENUE AND SUPPORT</b>		
<b>EXPENSES</b>		
Program services		
Grants and scholarships	3,153,085	4,002,404
Supporting services		
Management and general	34,292	41,803
Direct event expenses	1,000,058	1,122,891
Other fund raising	3,180	4,789
	4,190,615	5,171,887
<b>TOTAL EXPENSES</b>		
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	(209,707)	(1,135,831)
<b>UNRESTRICTED NET ASSETS, BEGINNING</b>	10,399,396	11,535,227
<b>UNRESTRICTED NET ASSETS, ENDING</b>	\$ 10,189,689	\$ 10,399,396

See Notes to Financial Statements.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**(A NOT-FOR-PROFIT ORGANIZATION)**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

**Year Ended December 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Direct Events</u>	<u>Other Fundraising</u>	<u>Total</u>
Scholarships	\$ 3,086,829	\$ -	\$ -	\$ -	\$ 3,086,829
Direct event expenses	-	-	832,014	-	832,014
Humanitarian aid	66,256	-	-	-	66,256
General and administrative	-	5,559	56,385	-	61,944
Salaries	-	12,000	65,000	-	77,000
Professional fees	-	12,000	34,950	-	46,950
Insurance	-	500	6,802	-	7,302
Payroll tax expense	-	1,200	4,907	-	6,107
Other fundraising expenses	-	-	-	3,180	3,180
Real estate taxes	-	3,000	-	-	3,000
Depreciation	-	33	-	-	33
<b>Total</b>	<b><u>\$ 3,153,085</u></b>	<b><u>\$ 34,292</u></b>	<b><u>\$ 1,000,058</u></b>	<b><u>\$ 3,180</u></b>	<b><u>\$ 4,190,615</u></b>

**Year Ended December 31, 2013**

	<u>Program Services</u>	<u>Management and General</u>	<u>Direct Events</u>	<u>Other Fundraising</u>	<u>Total</u>
Scholarships	\$ 3,749,805	\$ -	\$ -	\$ -	\$ 3,749,805
Direct event expenses	-	-	932,526	-	932,526
Humanitarian aid	237,649	-	-	-	237,649
General and administrative	-	9,318	96,854	-	106,172
Salaries	-	14,000	58,000	-	72,000
Professional fees	-	12,000	23,000	-	35,000
Contributions	14,950	-	-	-	14,950
Insurance	-	500	7,921	-	8,421
Payroll tax expense	-	1,200	4,590	-	5,790
Other fundraising expenses	-	-	-	4,789	4,789
Real estate taxes	-	3,260	-	-	3,260
Depreciation	-	1,525	-	-	1,525
<b>Total</b>	<b><u>\$ 4,002,404</u></b>	<b><u>\$ 41,803</u></b>	<b><u>\$ 1,122,891</u></b>	<b><u>\$ 4,789</u></b>	<b><u>\$ 5,171,887</u></b>

See Notes to Financial Statements.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**(A NOT-FOR-PROFIT ORGANIZATION)**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	<u>\$ (209,707)</u>	<u>\$ (1,135,831)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	33	1,523
Realized and unrealized gain on investments	(167,116)	(34,122)
Donated investments	(16,274)	(27,340)
Changes in assets and liabilities		
Increase in security deposit	-	(650)
Increase (decrease) in accrued expenses	309	2,983
<b>TOTAL ADJUSTMENTS TO NET ASSETS</b>	<u>(183,048)</u>	<u>(57,606)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(392,755)</u>	<u>(1,193,437)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	4,012,405	2,566,000
Purchase of investments	(4,349,839)	(2,608,841)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(337,434)</u>	<u>(42,841)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(730,189)	(1,236,278)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>2,478,414</u>	<u>3,714,692</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 1,748,225</u>	<u>\$ 2,478,414</u>

See Notes to Financial Statements.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. ORGANIZATION AND NATURE OF ACTIVITIES**

The Marine Corps-Law Enforcement Foundation, Inc. (the "Foundation") is a voluntary health and welfare organization incorporated in the State of New Jersey on February 16, 1996 pursuant to the provisions of Title 15A of the New Jersey Non Profit Act. The Foundation's revenues and support are derived from special events and contributions from the general public.

The Foundation was organized to provide scholarships and humanitarian aid to the children of active, reserve and former United States Marines, as well as children of persons associated with federal, state or local law enforcement, particularly those killed or injured in the line of duty. It is not a membership organization and no compensation is paid to its trustees, officers, directors or other private persons.

During 2003, the Foundation also provided scholarships to children of those killed in active duty serving with coalition forces in both Afghanistan and Iraq regardless of their nationality.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial statement presentation follows the provisions included in Financial Accounting Standards Board Accounting Standards Codification for "Not-For-Profit Entities", which constitutes "GAAP" for non-profit entities such as the Foundation. GAAP requires the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with "GAAP" requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents.

**INVESTMENTS**

Investments in marketable securities that were donated are recorded at their fair value on the date of receipt. Investment activities in the accompanying statements of cash flows include securities contributed to the Foundation.

Realized and unrealized gains and losses on investments are included in changes in unrestricted net assets in the statements of activities unless the income or loss is restricted by donor or law.

The Foundation's investments include of a variety of investment securities. The fair values reported in the statement of financial position are subject to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying statements of financial position could change materially in the near term.



**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**PROMISES TO GIVE**

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. There were no unconditional promises to give as of December 31, 2014 and 2013.

**EQUIPMENT**

Equipment is stated at cost. Expenditures for additions and betterments in excess of \$1,000 are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is calculated using straight-line and accelerated methods over a three to five year period. Depreciation expense was \$33 and \$1,524 for the years ended December 31, 2014 and 2013, respectively. Equipment no longer in service in the amount of \$85,034 was written-off in 2013.

**DONATED SERVICES**

The Foundation records donated services in the accompanying financial statements when such services require specialized skills, are susceptible to objective measurement or valuation and the services would normally have been paid for had they not been donated.

Donated services have not been recorded in the accompanying financial statements since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers have donated significant amounts of their time in the Foundation's fund raising campaign.

**ALLOCATION OF COSTS AND EXPENSES**

Costs and functional expenses incurred for or attributable to a specific program or supporting service are charged directly to that category. Costs and functional expenses that apply to more than one category are allocated.

**INCOME TAXES**

An exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code was granted. The Foundation has been classified as a publicly supported organization described in Section 509(c)(1) and 170(b)(1)(A)(VI) of the Internal Revenue Code and qualifies for the 50% charitable contribution deduction for individual donors.

The Foundation accounts for uncertainty in its income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined that there were no tax uncertainties that met the recognition threshold at December 31, 2014 and 2013.

The Foundation's form 990 for the years prior to 2011 December 31, 2011 are no longer subject to examination by the Internal Revenue Service.

**NET ASSETS**

Unrestricted net assets arise from contributions, special events, and other inflows of assets that are not subject to prior-imposed restrictions and are available for the support of the Foundation's activities. The Foundation did not have any temporarily or permanently restricted net assets as of December 31, 2014 and 2013.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**RECENT ACCOUNTING STANDARDS**

Management has reviewed recently issued authoritative accounting pronouncements and has concluded that the adoption of the pronouncements, if applicable to the Foundation, will not have a material impact on the financial statements.

**DATE OF MANAGEMENT'S REVIEW**

The Foundation evaluate subsequent events for recognition or disclosure through February 25, 2015, the date the financial statements were evaluated to be issued.

**3. INVESTMENTS**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment gains and losses increase (decrease) the unrestricted net assets of the Foundation.

Investment income is comprised of the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$282,654	\$230,435
Realized and unrealized gain on investments	167,116	34,122
Investment fees	<u>(6,735)</u>	<u>(13,401)</u>
	<u>\$443,035</u>	<u>\$251,156</u>

During 2005, a parcel of land in South Carolina was donated to the Foundation. In 2009, the Foundation recorded a \$50,000 impairment adjustment to reduce this investment to its current estimated fair value. In 2008, real estate in Arizona and Nevada were donated to the Foundation; such real estate has been recorded at fair value at the date of the donation. Real estate donated to the foundation is reported as investments because it is the Foundation's intent to sell such assets.

The following table presents the carrying value of investments as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land:		
South Carolina, (net of impairment of \$50,000)	\$565,116	\$565,116
Arizona	42,000	42,000
Nevada	<u>3,000</u>	<u>3,000</u>
Financial assets (note 4)	610,116	610,116
	<u>7,830,090</u>	<u>7,313,165</u>
Total investments	<u>\$8,440,206</u>	<u>\$7,923,281</u>

The investment in land is considered a non-financial item measured at fair value on a nonrecurring basis. Non-financial assets are measured at fair value when there is an indicator of impairment. The impairment is recognized when the carrying value of the asset is less than the undiscounted estimated cash flows.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**4. FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board guidance provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The levels of fair value hierarchy under the Codification are described as follows:

Level 1 -- Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 -- Inputs are adjusted quoted prices for similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 -- Inputs are significant unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present assets and liabilities measured at fair value on a recurring basis that are categorized using the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2014</b>				
FICO STRIPS	\$ 280,092	\$ -	\$ -	\$ 280,092
Treasury Notes	206,709	-	-	206,709
Mortgage-backed securities	393,755	-	-	393,755
Equities	3,166,340	-	-	3,166,340
Mutual Funds	3,231,005	-	-	3,231,005
Corporate bonds	-	552,189	-	552,189
	<u>\$7,277,901</u>	<u>\$ 552,189</u>	<u>\$ -</u>	<u>\$7,830,090</u>
<b>December 31, 2013</b>				
FICO STRIPS	\$ 310,270	\$ -	\$ -	\$ 310,270
Treasury Notes	930,633	-	-	930,633
Mortgage-backed securities	661,200	-	-	661,200
Marketable equity securities	2,042,214	-	-	2,042,214
Mutual Funds	2,112,263	-	-	2,112,263
Corporate bonds	-	1,048,343	-	1,048,343
Corporate debentures	-	208,242	-	208,242
	<u>\$6,056,580</u>	<u>\$ 1,256,585</u>	<u>\$ -</u>	<u>\$7,313,165</u>

Any asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used to value the assets for periods presented in these financial statements.

The investment classes listed above are included in investments on the statement of financial position and reconcile to total investments at December 31, 2014 and 2013. The following is a description of the valuation methodologies used for assets measured at fair value.

**MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**4. FAIR VALUE MEASUREMENTS (CONTINUED)**

*U.S. Government debt including FICO, mortgage-backed securities and marketable equity securities:* Valued at the closing price reported on the active market on which the individual security is traded.

*Mutual funds:* Valued at the quoted net asset value ("NAV") of shares held by the Foundation at year end.

*Corporate bonds and corporate debentures:* Valued using quoted market prices for similar securities with similar terms in actively traded markets.

At December 31, 2014 and 2013 the Foundation did not have any assets whose fair value was measured using level 3 inputs. There were no transfers between level 1 and level 2 during 2014 and 2013. In addition transfers, if any, would be recognized at the end of the reporting period.

**5. SCHOLARSHIPS**

During 2012, the Foundation entered into an agreement with a financial institution to hold scholarships in trust for the intended children. Upon the award of a scholarship, the Foundation funds a sub-account in the name of the recipient and records the related program expense as an escrow liability. As of December 31, 2014 and 2013 the Foundation had cash and cash equivalents of approximately \$7,332,000 and \$5,980,000, representing scholarships held in escrow which are offset against the escrow liability and not included in the Foundation's statement of financial position.

**6. GRANTS**

Cash grants were made to other organizations, which ran or sponsored youth orientated programs that were sponsored by or had affiliations with the Marine Corps or law enforcement organizations. Humanitarian aid is provided by both direct payments to the recipient or directly to the provider of the services rendered.

**7. OPERATING LEASE**

The Foundation entered into an office lease expiring in March 2016. As of December 31, 2014, the future minimum annual rental payments required under the lease will be \$8,700 (2015) and \$2,250 (2016), totaling \$10,950. The total rental expense was \$7,800 and \$41,500 for the years ended December 31, 2014 and 2013, respectively, and is included in general and administrative expenses and direct event expenses on the statements of functional expenses.

**8. CONCENTRATION OF CREDIT RISK**

The Foundation maintains a portion of its cash balances totaling approximately \$1,803,000 and \$2,312,000 at December 31, 2014 and 2013, respectively, at financial institutions that are not covered by the Federal Deposit Insurance Corporation. Management attempts to monitor the soundness of the financial institutions and believes the Foundation's risk is negligible.

The Foundation had one event representing 28% and 35% of total revenue and support for 2014 and 2013, respectively.