H

MARINE CORPS – LAW ENFORCEMENT FOUNDATION, INC.

MC-LEF

Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2015 and 2014

ARKS PANETH

ACCOUNTANTS & ADVISORS

MARINE CORPS – LAW ENFORCEMENT FOUNDATION, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED DECEMBER 31, 2015 AND 2014

TABLE OF CONTENTS

Marks Paneth LLP
1719 Route 10 East
Suite 102
Parsippany, NJ 07054
P 973.267.1400
F 973.267.8205
www.markspaneth.com

New York City
Washington, DC
New Jersey
Long Island
Westchester

MARKS PANETH
ACCOUNTANTS & ADVISORS

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. ("The Foundation"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2015 and 2014, 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.

Other Matter

The financial statements of Marine Corps - Law Enforcement Foundation, Inc. for the prior year ended December 31, 2014, were audited by Fischer Barr & Wissinger LLC, whose practice was merged with that of Marks Paneth LLP whose report dated February 25, 2015 expressed an unmodified opinion on those financial statements.

Marks Paneth LLP

Marks Paneth LLP

Parsippany, New Jersey
March 31, 2016

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 593,850	$ 1,748,225
Investments	9,252,641	8,440,206
Prepaid rent	7,200	3,900
TOTAL CURRENT ASSETS	9,853,691	10,192,331
OTHER ASSET, Security deposit	650	650
TOTAL ASSETS	$ 9,854,341	$ 10,192,981
CURRENT LIABILITIES		
Accrued expenses	$ 3,292	$ 3,292
NET ASSETS		
Unrestricted	9,851,049	10,189,689
TOTAL LIABILITIES AND NET ASSETS	$ 9,854,341	$ 10,192,981

The accompanying notes are an integral part of these financial statements

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014

		2015		2014
REVENUE AND SUPPORT:				
Contributions	$	1,367,816	$	1,369,244
Special events		2,339,652		2,168,629
Investment (expense) income		(80,980)		443,035
TOTAL REVENUE AND SUPPORT		3,626,488		3,980,908
OPERATING EXPENSES:				
Program services				
Grants and scholarships		2,984,142		3,153,085
Supporting services				
Management and general		32,674		34,292
Direct event expenses		944,362		1,000,058
Other fund raising		3,950		3,180
TOTAL EXPENSES		3,965,128		4,190,615
CHANGE IN UNRESTRICTED NET ASSETS		(338,640)		(209,707)
UNRESTRICTED NET ASSETS, BEGINNING		10,189,689		10,399,396
UNRESTRICTED NET ASSETS, ENDING	$	9,851,049	$	10,189,689

The accompanying notes are an integral part of these financial statements

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

Year Ended December 31, 2015

	Program Services	Management and General	Direct Events	Other Fundraising	Total
Scholarships	$ 2,910,783	$ -	$ -	$ -	$ 2,910,783
Direct event expenses	-	-	766,231	-	766,231
Humanitarian aid	73,359	-	-	-	73,359
General and administrative	-	5,384	74,668	-	80,052
Salaries	-	12,000	65,000	-	77,000
Professional fees	-	12,000	25,500	-	37,500
Insurance	-	575	7,863	-	8,438
Payroll tax expense	-	1,236	5,100	-	6,336
Other fundraising expenses	-	-	-	3,950	3,950
Real estate taxes	-	1,479	-	-	1,479
Total	$ 2,984,142	$ 32,674	$ 944,362	$ 3,950	$ 3,965,128

Year Ended December 31, 2014

	Program Services	Management and General	Direct Events	Other Fundraising	Total
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
Total	$ 3,153,085	$ 34,292	$ 1,000,058	$ 3,180	$ 4,190,615

The accompanying notes are an integral part of these financial statements

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (338,640)	$ (209,707)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	-	33
Realized and unrealized loss (gain) on investments	417,474	(167,116)
Donated investments	(74,941)	(16,274)
Changes in assets and liabilities		
Increase in accrued expenses	-	309
Total Adjustments to Net Assets	342,533	(183,048)
Net Cash Provided by (Used in) Operating Activities	3,893	(392,755)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	560,668	4,012,405
Purchase of investments	(1,718,936)	(4,349,839)
Net Cash Used in Investing Activities	(1,158,268)	(337,434)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,154,375)	(730,189)
CASH AND CASH EQUIVALENTS, BEGINNING	1,748,225	2,478,414
CASH AND CASH EQUIVALENTS, ENDING	$ 593,850	$ 1,748,225

The accompanying notes are an integral part of these financial statements

NOTE 1 – FOUNDATION 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting*** – The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). This basis of accounting includes the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

B. ***Basis of Presentation*** – Financial statement presentation follows guidance issued by the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-210, concerning financial statements for not-for-profit entities such as the Foundation. Under this guidance, the Foundation is required 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.

These classifications are defined as follows:

Permanently restricted – net assets generally of an endowment nature resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the recipient. The Foundation has no permanently restricted net assets.

Temporarily restricted – net assets resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions taken pursuant to those stipulations. When stipulations terminate or are fulfilled, the amounts involved are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation has no temporarily restricted net assets.

Unrestricted – unexpended net assets that are, neither permanently nor temporarily, restricted by donor imposed stipulations.

C. ***Cash and Cash Equivalents*** – Cash equivalents includes all cash balances and highly liquid debt instruments with a maturity of three months or less when acquired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ***Investments*** – Investments with readily determinable fair values are measured at fair value in the accompanying statements of financial position. Unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned. Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as described in Note 4.

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

Investments in marketable securities that were donated are recorded at fair value at the date of receipt.

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.

E. ***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, 2015 and 2014.

F. ***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 $-0- and $33 for the years ended December 31, 2015 and 2014, respectively.

G. ***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, 2015 and 2014.

H. ***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.

I. ***Functional Allocation of Expenses*** – The costs of providing the various program and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, expenses have been allocated among the programs and supporting services using appropriate measurement methodologies developed by management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. ***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 follows Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 3 – INVESTMENTS

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. 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, 2015 and 2014:

	2015	2014
Land:		
South Carolina, net of impairment of $50,000	$ 565,116	$ 565,116
Arizona	42,000	42,000
Nevada	3,000	3,000
	610,116	610,116
Financial assets (note 4)	8,642,525	7,830,090
Total investments	$ 9,252,641	$ 8,440,206

The investment in land is considered a non-financial item measured at the date of donation less impairment adjustment. The impairment is recognized when the carrying value of the asset is less than the undiscounted estimated cash flows.

Investment income is comprised of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Interest and dividend income	$ 323,452	$ 282,654
Realized and unrealized gain on investments	(403,535)	167,116
Investment fees	(897)	(6,735)
	$ (80,980)	$ 443,035

NOTE 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.

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 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.

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets carried at fair value as of December 31, 2015 are classified in the table as follows:

	Level 1	Level 2	Level 3	Total
ASSETS CARRIED AT FAIR VALUE				
Investments:				
FICO STRIPS	$ 285,888	$ -	$ -	$ 285,888
Treasury notes	205,633	-	-	205,633
Mortgage-backed securities	169,623	-	-	169,623
Marketable equity securities	3,897,725	-	-	3,897,725
Mutual funds	3,850,598	-	-	3,850,598
Corporate bonds	-	233,058	-	233,058
	$8,409,467	$ 233,058	$ -	$8,642,525

Financial assets carried at fair value as of December 31, 2014 are classified as follows:

	Level 1	Level 2	Level 3	Total
ASSETS CARRIED AT FAIR VALUE				
Investments:				
FICO STRIPS	$ 280,092	$ -	$ -	$ 280,092
Treasury notes	206,709	-	-	206,709
Mortgage-backed securities	393,755	-	-	393,755
Marketable equity securities	3,166,340	-	-	3,166,340
Mutual funds	3,231,005	-	-	3,231,005
Corporate bonds	-	552,189	-	552,189
	$7,277,901	$552,189	$ -	$7,830,090

The investment classes listed above are included in investments on the statement of financial position and reconcile to total investments at December 31, 2015 and 2014. The following is a description of the valuation methodologies used for assets measured at fair value.

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 market prices.

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

At December 31, 2015 and 2014 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 2015 and 2014. In addition transfers, if any, would be recognized at the end of the reporting period.

NOTE 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, 2015 and 2014 the Foundation had cash and cash equivalents of approximately $4,872,000 and $7,332,000, representing scholarships held in escrow which are offset against the escrow liability and not included in the Foundation's statement of financial position.

NOTE 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.

NOTE 7 – OPERATING LEASE

The Foundation entered into an office lease expiring in March 2018.

Future minimum rental payments under the lease is summarized as follows:

2016	$ 9,000
2017	9,000
2018	2,250

The total rental expense was $8,700 and $7,800 for the years ended December 31, 2015 and 2014, respectively, and is included in general and administrative expenses and direct event expenses on the statements of functional expenses.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Foundation maintains a portion of its cash balances totaling approximately $217,500 and $1,803,000 at December 31, 2015 and 2014, respectively, at financial institutions that are not covered by the Federal Deposit Insurance Corporation.

The Foundation had one event representing 45% and 28% of total revenue and support for 2015 and 2014, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events and transactions that occurred subsequent to the date of the statement of financial position through March 31, 2016, the date the financial statements were available to be issued.