

MARINE CORPS – LAW ENFORCEMENT FOUNDATION, INC.



Financial Statements
(Together with Independent Auditors' Report)

December 31, 2016 and 2015

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

MARINE CORPS – LAW ENFORCEMENT FOUNDATION, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Function Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-11

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 statements of financial position as of December 31, 2016 and 2015 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016 and 2015, 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.



Parsippany, New Jersey
July 28, 2017

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,402,560	\$ 593,850
Pledges receivable	114,543	61,129
Investments	10,907,368	9,252,641
Prepaid rent	89,153	7,200
TOTAL CURRENT ASSETS	12,513,624	9,914,820
 OTHER ASSET, Security deposit	 750	 650
 TOTAL ASSETS	 \$ 12,514,374	 \$ 9,915,470
 LIABILITIES		
CURRENT LIABILITIES		
Accrued expenses	\$ 2,980	\$ 3,292
 COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	12,411,394	9,912,178
Temporary restricted	100,000	-
TOTAL NET ASSETS	12,511,394	9,912,178
 TOTAL LIABILITIES AND NET ASSETS	 \$ 12,514,374	 \$ 9,915,470

The accompanying notes are an integral part of these financial statements

MARINE CORPS-LAW ENFORCEMENT FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUE AND SUPPORT:		
Contributions	\$ 2,795,658	\$ 1,331,729
Special events	3,092,190	2,339,652
Investment income (expense)	1,075,283	(80,980)
	6,963,131	3,590,401
OPERATING EXPENSES:		
Program services		
Grants and scholarships, including land contributed back to original donor for \$565,116 in 2016	3,304,758	2,984,142
Supporting services		
Management and general	32,679	32,674
Direct event expenses	1,118,468	944,362
Other fundraising	8,010	3,950
	4,463,915	3,965,128
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	2,499,216	(374,727)
Changes in temporarily restricted net assets:		
Contributions and other fundraising events	100,000	-
	100,000	-
INCREASE (DECREASE) IN NET ASSETS	2,599,216	(374,727)
NET ASSETS, BEGINNING	9,912,178	10,189,689
RESTATED (Note 9)	-	97,216
NET ASSETS, ENDING	\$ 12,511,394	\$ 9,912,178

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, 2016 AND 2015

Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Direct Events</u>	<u>Other Fundraising</u>	<u>Total</u>
Scholarships	\$ 2,498,754	\$ -	\$ -	\$ -	\$ 2,498,754
Direct event expenses	-	-	933,354	-	933,354
Humanitarian aid	178,759	-	-	-	178,759
Contributions	627,245	-	-	-	627,245
General and administrative	-	6,658	86,307	-	92,965
Salaries	-	12,000	68,000	-	80,000
Professional fees	-	12,000	24,000	-	36,000
Insurance	-	648	1,807	-	2,455
Payroll tax expense	-	1,373	5,000	-	6,373
Other fundraising expenses	-	-	-	8,010	8,010
Real estate taxes	-	-	-	-	-
Total	<u>\$ 3,304,758</u>	<u>\$ 32,679</u>	<u>\$ 1,118,468</u>	<u>\$ 8,010</u>	<u>\$ 4,463,915</u>

Year Ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Direct Events</u>	<u>Other Fundraising</u>	<u>Total</u>
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
Depreciation	-	-	-	-	-
Total	<u>\$ 2,984,142</u>	<u>\$ 32,674</u>	<u>\$ 944,362</u>	<u>\$ 3,950</u>	<u>\$ 3,965,128</u>

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,599,216	\$ (374,727)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized (gain) loss on investments	(722,637)	403,535
Loss on sale of land	44,673	-
Donated investments	(48,566)	(74,941)
Changes in assets and liabilities		
Pledges receivable	(53,414)	36,087
Prepaid rent	(81,953)	(3,300)
Security deposit	(100)	-
Increase in accrued expenses	(312)	-
Total Adjustments to Net Assets	(862,309)	361,381
Net Cash Provided by (Used in) Operating Activities	1,736,907	(13,346)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	312,294	574,607
Proceeds from sale of land	327	-
Purchase of investments	(1,240,818)	(1,715,636)
Net Cash Used in Investing Activities	(928,197)	(1,141,029)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	808,710	(1,154,375)
CASH AND CASH EQUIVALENTS, BEGINNING	593,850	1,748,225
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,402,560	\$ 593,850

The accompanying notes are an integral part of these financial statements

MARINE CORPS – LAW ENFORCEMENT FOUNDATION, INC.
NOTES TO 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.

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

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 conditional promises to give as of December 31, 2016 and 2015.

F. 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 permanently restricted net assets as of December 31, 2016 and 2015.

G. 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.

H. 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- I. **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.

- J. **Reclassification** – Certain items in the December 31, 2015, financial statements have been classified to conform to the December 31, 2016 presentation. These reclassification had no impact on the change in net assets for the year ended December 31, 2015.

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 was reported as investments because it was the Foundation's intent to sell such assets. During 2016, the lands located in Arizona and Nevada was sold for \$327 and the land located in South Carolina was donated back to the original donor.

The following table presents the carrying value of investments as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land:		
South Carolina, net of impairment of \$50,000	\$ -	\$ 565,116
Arizona	-	42,000
Nevada	-	3,000
	<u>-</u>	<u>610,116</u>
Financial assets (note 4)	10,907,368	8,642,525
	<u>10,907,368</u>	<u>8,642,525</u>
Total investments	<u>\$ 10,907,368</u>	<u>\$ 9,252,641</u>

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 352,646	\$ 323,452
Realized and unrealized gain (loss) on investments	722,637	(403,535)
Investment fees	-	(897)
	<u>-</u>	<u>(897)</u>
	<u>\$ 1,075,283</u>	<u>\$ (80,980)</u>

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

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 estimates on assumptions 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.

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

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets carried at fair value as of December 31, 2016 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE				
Investments:				
Treasury notes	\$ 204,464	\$ -	\$ -	\$ 204,464
Mortgage-backed securities	112,639	-	-	112,639
Marketable equity securities	4,676,857	-	-	4,676,857
Mutual funds	5,651,658	-	-	5,651,658
Corporate bonds	-	261,750	-	261,750
	<u>\$ 10,645,618</u>	<u>\$ 261,750</u>	<u>\$ -</u>	<u>\$ 10,907,368</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$8,409,467</u>	<u>\$233,058</u>	<u>\$ -</u>	<u>\$8,642,525</u>

The investment classes listed above are included in investments on the statement of financial position and reconcile to total investments at December 31, 2016 and 2015. 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, 2016 and 2015 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 2016 and 2015. In addition transfers, if any, would be recognized at the end of the reporting period.

NOTE 5 – 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.

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

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Scholarships	<u>\$ 100,000</u>	<u>\$ -</u>

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:

2017	9,000
2018	2,250

The total rental expense was \$9,000 and \$8,700 for the years ended December 31, 2016 and 2015, 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 \$1,015,000 and \$217,500 at December 31, 2016 and 2015, respectively, at financial institutions that are not covered by the Federal Deposit Insurance Corporation.

The Foundation had one event representing 45% of total revenue and support for 2016 and 2015, respectively.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended December 31, 2016 have been restated to record pledges receivable at January 1, 2016. The result of the restatement increased "accounts receivable" by \$61,129 and decreased "contributions" by \$36,087. The restatement increased total "net assets" by \$97,216.

NOTE 10 – 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 July 28, 2017, the date the financial statements were available to be issued.