

FINANCIAL REPORT



FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

December 31, 2008



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3104 Fourth Avenue
San Diego, California 92103
619.615.5380 Fax 619.615.5389

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
First Marine Division Association Scholarship Fund, Inc.
Oceanside, California

We have audited the accompanying statement of financial position of the First Marine Division Association Scholarship Fund, Inc. as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the First Marine Division Association Scholarship Fund, Inc. as of December 31, 2008, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

James H. West, CPA
for WEST RHODE & ROBERTS

San Diego, California
February 16, 2009

James H. West, C.P.A.

Cheryl M. Rhode, C.P.A.

Christopher M. Roberts, C.P.A.

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 22,874 |
| Investments (Note 2) | 494,798 |
| Accounts receivable | <u>245</u> |
| Total assets | <u>\$ 517,917</u> |

LIABILITIES AND NET ASSETS

Liabilities:

| | |
|-------------------|-----------|
| Accounts payable | <u>94</u> |
| Total liabilities | <u>94</u> |

Commitments (Note 8)

Net assets:

| | |
|----------------------------------|-------------------|
| Unrestricted | (173) |
| Temporarily restricted (Note 3) | <u>517,996</u> |
| Total net assets | <u>517,823</u> |
| Total liabilities and net assets | <u>\$ 517,917</u> |

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

| | Unrestricted | Temporarily Restricted | Total |
|---|-----------------|---------------------------|-------------------|
| REVENUE AND SUPPORT | | | |
| Contributions | \$ - | \$ 33,368 | \$ 33,368 |
| Investment income | 6,420 | - | 6,420 |
| Special event | 1,499 | - | 1,499 |
| Donation from 1st Marine Division Assoc, (Note 7) | - | 523,378 | 523,378 |
| Temporarily restricted assets released from restrictions: | | | |
| Satisfaction of program restrictions | <u>38,750</u> | <u>(38,750)</u> | <u>-</u> |
| Total revenue and support | <u>46,669</u> | <u>517,996</u> | <u>564,665</u> |
| EXPENSES AND LOSSES | | | |
| Program expenses | | | |
| Scholarships | <u>38,750</u> | <u>-</u> | <u>38,750</u> |
| Total program expenses | <u>38,750</u> | <u>-</u> | <u>38,750</u> |
| Supporting services | | | |
| Management and general | 7,512 | - | 7,512 |
| Fundraising | <u>580</u> | <u>-</u> | <u>580</u> |
| Total supporting services | <u>8,092</u> | <u>-</u> | <u>8,092</u> |
| Total expenses | <u>46,842</u> | <u>-</u> | <u>46,842</u> |
| TOTAL CHANGE IN NET ASSETS | (173) | 517,996 | 517,823 |
| NET ASSETS AT BEGINNING OF YEAR | <u>-</u> | <u>-</u> | <u>-</u> |
| NET ASSETS AT END OF YEAR | <u>\$ (173)</u> | <u>\$ 517,996</u> | <u>\$ 517,823</u> |

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

| | |
|---|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Increase (decrease) in net assets | \$ 517,823 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Unrealized gain on investment | 1,937 |
| (Increase) in accounts receivable | (245) |
| Increase in accounts payable | 94 |
| Net cash provided by operating activities | <u>519,609</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of investments | <u>(496,735)</u> |
| Net cash (used) by investing activities | <u>(496,735)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 22,874 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>-</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 22,874</u> |

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization – The First Marine Division Association Scholarship Fund, Inc. is a non-profit organization formed to establish and maintain monies in a scholarship fund for the purpose of awarding grants to the dependents of veterans of the First Marine Division and attached supporting units, who are deceased, missing in action, or fully disabled.

Method of Accounting – The financial statements of the Organization have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation – The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2008, there were no permanently restricted net assets.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions received which have temporary restrictions as to their use, are reported as temporarily restricted support, and are then reclassified to unrestricted net assets upon fulfillment of the restriction.

Cash and Cash Equivalents – The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments – Marketable securities are carried at fair value. Realized and unrealized gains and losses are included in the statement of activities as increases or decreases in unrestricted net assets.

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, 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.

NOTE 2. INVESTMENTS

Investments at December 31, 2008 consist of the following:

| | |
|-------------------------------|-------------------|
| Bond funds | \$ 476,937 |
| Short term money market funds | <u>17,861</u> |
| | <u>\$ 494,798</u> |

Investments consist primarily of temporarily restricted funds representing future amounts to be disbursed in support of the scholarship program. For the year ended December 31, 2008, the Organization received \$4,483 in dividends and interest and had an unrealized gain on investments of \$1,937.

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions and other inflows received by the Organization, which are limited in their use by the donor-imposed stipulations. Temporarily restricted net assets consist of amounts received for scholarships available to dependents of deceased or disabled individuals who served in the First Marines Division and/or members attached to or in support of the Division, as defined. At December 31, 2008, temporarily restricted net assets related to the scholarship fund totaled \$517,996.

NOTE 4. TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were scholarships paid totaling \$38,750.

NOTE 5. INCOME TAX STATUS

The Organization, a not-for-profit corporation, is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes.

NOTE 6. CONTRIBUTED SERVICES

The Organization receives benefit from services provided by active and retired members of the Marine Corps and their spouses. The value of these donated services does not represent specialized skills, and an estimate for the dollar value of their time has not been reflected in the accompanying financial statements.

NOTE 7. DONATION FROM 1st MARINE DIVISION ASSOCIATION, INC. (FMDA, Inc.)

The Organization was established by authority of the Board of Directors and the membership of the FMDA, Inc., to broaden the appeal for public and corporate funding of scholarships and to qualify the scholarship fund for participation in the Combined Federal Campaign. The scholarship fund has been operated by the FMDA, Inc., a 501(c)(19) War Veterans Organization, for many years, however, corporate and public funding has not been made available because of the reluctance of the public and corporate entities to donate tax-deductible funds to a 501(c) (19) tax-exempt/non-profit membership corporation. Most corporate giving is limited by internal policy to 501(c) (3) organizations, therefore, in order to shift the funding of FMDA scholarships from members to the public and corporations, the Organization, was established as a 501(c) (3) public charity to qualify it for public and corporate tax-deductible donations and to also qualify the scholarship fund for participation in the Combined Federal Campaign.

Early in the process when the establishment of the scholarship fund as a 501(c) (3) was debated within the FMDA, Inc., it was also argued that a separate 501(c) (3) was needed to protect the scholarship assets from potential creditors of the FMDA, Inc., associated with liquidated damages that were possible as a result of excessive room night and food and beverage contract guarantees that were part of forward reunion contracts signed by past presidents. The threat of a creditor of the FMDA, Inc., placing a lien on the scholarship fund assets is no longer a concern as the FMDA, Inc., has taken the steps necessary to reduce the threat of liquidated damages associated with its reunions by significantly reducing reunion contract guarantees to levels that are achievable in today's unfavorable economic environment.

FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 8. ADMINISTRATIVE SERVICE CONTRACT

The Organization entered into an arm's length service agreement with the First Marine Division Association, Inc. to provide administrative and financial support services to the Organization. Termination of the agreement requires a 90 day cancellation notice and approval by the Board of Directors. Total payments made under the terms of this contract for the year ended December 31, 2008 was \$6,973.