

# FINANCIAL REPORT



## FIRST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.

December 31, 2012



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## **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

Board of Directors  
1st Marine Division Association Scholarship Fund, Inc.  
Oceanside, California

We have audited the accompanying financial statements of the 1st Marine Division Association Scholarship Fund, Inc., which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Association's 2011 financial statements, and in our report dated June 29, 2012, we expressed an unqualified opinion on those 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 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, that 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 principles 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 opinion.

**Opinion** – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 1<sup>st</sup> Marine Division Association Scholarship Fund, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

San Diego, California  
June 25, 2013

Cheryl Rhode, CPA  
for WEST RHODE & ROBERTS

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.**

**STATEMENT OF FINANCIAL POSITION**

**December 31, 2012**

**(With Summarized Financial Information for December 31, 2011)**

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	<u>2012</u>	<u>2011</u> (Note 8)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 385,682	\$ 420,607
Accounts receivable	3,532	1,215
Prepaid expenses	<u>4,502</u>	<u>6,912</u>
Total assets	<u>\$ 393,716</u>	<u>\$ 428,734</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ -	\$ 52
Total liabilities	<u>-</u>	<u>52</u>
Net assets:		
Unrestricted deficit	(4,907)	3,921
Temporarily restricted (Note 3)	<u>398,623</u>	<u>424,761</u>
Total net assets	<u>393,716</u>	<u>428,682</u>
Total liabilities and net assets	<u>\$ 393,716</u>	<u>\$ 428,734</u>

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2012**

**(With Summarized Financial Information for December 31, 2011)**

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	2012			2011 (Note 8)
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 1,000	\$ 14,159	\$ 15,159	\$ 45,887
Interest income	40	-	40	67
Temporarily restricted assets released from restrictions:				
Satisfaction of program restrictions	40,297	(40,297)	-	-
Total revenue and support	<u>41,337</u>	<u>(26,138)</u>	<u>15,199</u>	<u>45,954</u>
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Scholarships and grants	40,297	-	40,297	60,250
Supporting services				
Management and general	<u>9,868</u>	<u>-</u>	<u>9,868</u>	<u>12,433</u>
Total expenses	<u>50,165</u>	<u>-</u>	<u>50,165</u>	<u>72,683</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	(8,828)	(26,138)	(34,966)	(26,729)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,921</u>	<u>424,761</u>	<u>428,682</u>	<u>455,411</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ (4,907)</u>	<u>\$ 398,623</u>	<u>\$ 393,716</u>	<u>\$ 428,682</u>

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2012**

**(With Summarized Financial Information for December 31, 2011)**

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	<u>2012</u>	<u>2011</u> (Note 8)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) in net assets	\$ (34,966)	(26,729)
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) in accounts receivable	(2,317)	(1,215)
Decrease in prepaid expenses	2,410	3,280
Increase (decrease) in accounts payable	<u>(52)</u>	<u>52</u>
Net cash (used in) operating activities	<u>(34,925)</u>	<u>(24,612)</u>
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(34,925)	(24,612)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>420,607</u>	<u>445,219</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 385,682</u>	<u>\$ 420,607</u>

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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**NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Organization** – The 1st Marine Division Association Scholarship Fund, Inc. (Scholarship Fund) 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 1st Marine Division and attached supporting units, who are deceased, missing in action, or fully disabled.

**Method of Accounting** – The financial statements of the Scholarship Fund 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 Scholarship Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2012, there were no permanently restricted net assets.

**Basis of Presentation** – Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly the net assets of the Scholarship Fund and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to any donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Scholarship Fund or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by the Scholarship Fund. Generally, the donors permit the Scholarship Fund to use all or part of the income earned for either general or donor-specified purposes. As of December 31, 2012, the Scholarship Fund had no permanently restricted net assets.

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

**Functional Allocation of Expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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.

**Subsequent Events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Scholarship Fund recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Scholarship Fund's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Scholarship Fund has evaluated subsequent events through June 25, 2013, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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**NOTE 2. FAIR VALUE**

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification No. 820 (ASC 820), Fair Value Measurements that establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect the Scholarship Fund's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Scholarship Fund's statement of financial position includes cash and cash equivalents which have been considered Level 1 assets and are reported at fair value based on quoted prices. The fair value of a financial instrument 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. Fair value is best determined based upon quoted market prices.

The management of the Scholarship Fund is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Scholarship Fund has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with GAAP.

**NOTE 3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets represent contributions and other inflows received by the Scholarship Fund, 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 Marine Division and/or members attached to or in support of the Division, as defined. At December 31, 2012, temporarily restricted net assets related to the scholarship fund totaled \$398,623.

**NOTE 4. TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets released from their restrictions at December 31, 2012 consist of \$40,297 spent on scholarships.

**1ST MARINE DIVISION ASSOCIATION SCHOLARSHIP FUND, INC**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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**NOTE 5. CONTRIBUTED SERVICES**

The Scholarship Fund receives benefits 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 6. RELATED PARTY TRANSACTION**

The Scholarship Fund has an agreement with the 1st Marine Division Association, Inc. to provide administrative and financial support services to the Scholarship Fund. The Scholarship Fund has board members whom also serve on the Board of Directors for the 1<sup>st</sup> Marine Division Association, Inc. 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, 2012 was \$2,508.

**NOTE 7. INCOME TAX STATUS**

The Scholarship Fund, 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. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Scholarship Fund has reviewed its positions for all open tax years and has determined that no provision for income tax positions is required.

**NOTE 8. DECEMBER 31, 2011 FINANCIAL INFORMATION**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Scholarship Fund's financial statements for the year ended December 31, 2011, from which the summarized information was derived.