

DOLPHIN SCHOLARSHIP FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

DOLPHIN SCHOLARSHIP FOUNDATION

**FINANCIAL STATEMENTS
JUNE 30, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dolphin Scholarship Foundation
Virginia Beach, Virginia

We have audited the accompanying financial statements of Dolphin Scholarship Foundation (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 risk 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 Dolphin Scholarship Foundation of June 30, 2018 and 2017, 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.

Barnes, Brock, Cornwell & Painter, PLC

October 18, 2018
Chesapeake, Virginia

DOLPHIN SCHOLARSHIP FOUNDATION

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 and 2017

ASSETS

| | 2018 | 2017 |
|---------------------------------|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 181,575 | \$ 146,076 |
| Investments | 5,058,704 | 4,904,239 |
| Accrued investment income | 9,369 | 10,894 |
| Accounts receivables | 18,500 | 29,762 |
| Inventory | 13,515 | 12,764 |
| Prepaid expense | 1,121 | 1,948 |
| | <u>\$ 5,282,784</u> | <u>\$ 5,105,683</u> |
| FURNITURE AND EQUIPMENT: | | |
| Furniture and equipment | \$ 55,203 | \$ 51,343 |
| Less accumulated depreciation | 49,448 | 41,763 |
| | <u>\$ 5,755</u> | <u>\$ 9,580</u> |
| OTHER ASSET: | | |
| Security deposit | \$ 950 | \$ 950 |
| | <u>\$ 5,289,489</u> | <u>\$ 5,116,213</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 3,133 | \$ 5,344 |
| Payroll taxes withheld and accrued expenses | 2,283 | 146 |
| Deferred revenue | - | 10,500 |
| | <u>\$ 5,416</u> | <u>\$ 15,990</u> |
| NET ASSETS: | | |
| Unrestricted: | | |
| Available for operations | \$ 442,576 | \$ 559,558 |
| Board designated funds | 4,300,253 | 4,044,263 |
| Total unrestricted | <u>\$ 4,742,829</u> | <u>\$ 4,603,821</u> |
| Temporary restricted | 541,244 | 496,402 |
| | <u>\$ 5,284,073</u> | <u>\$ 5,100,223</u> |
| | <u>\$ 5,289,489</u> | <u>\$ 5,116,213</u> |

See independent auditor's report and accompanying notes to financial statements.

DOLPHIN SCHOLARSHIP FOUNDATION

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

| | Unrestricted | Temporary Restricted | 2018 Total | Comparative 2017 Total |
|--|---------------------|-------------------------|---------------------|------------------------------|
| REVENUE AND SUPPORT: | | | | |
| Contributions | \$ 285,682 | \$ 33,225 | \$ 318,907 | \$ 331,177 |
| Special events, net of expenses \$13,795 and \$16,382, respectively | 79,301 | - | 79,301 | 71,972 |
| Interest and dividend income | 113,341 | 13,400 | 126,741 | 134,529 |
| Realized gain (loss) on investments | 38,929 | 25,252 | 64,181 | 9,049 |
| Unrealized gain on investments | 183,361 | - | 183,361 | 182,482 |
| Sublet rental income | 2,488 | - | 2,488 | 13,578 |
| Net assets released from restrictions | 27,035 | (27,035) | - | - |
| Total revenue and support | \$ 730,137 | \$ 44,842 | \$ 774,979 | \$ 742,787 |
| EXPENSES: | | | | |
| Program services | \$ 497,352 | \$ - | \$ 497,352 | \$ 457,438 |
| Management and general | 52,196 | - | 52,196 | 70,695 |
| Fundraising | 41,581 | - | 41,581 | 38,765 |
| Total expenses | \$ 591,129 | \$ - | \$ 591,129 | \$ 566,898 |
| CHANGE IN NET ASSETS | \$ 139,008 | \$ 44,842 | \$ 183,850 | \$ 175,889 |
| NET ASSETS, BEGINNING OF YEAR | 4,603,821 | 496,402 | 5,100,223 | 4,924,334 |
| NET ASSETS, END OF YEAR | \$ 4,742,829 | \$ 541,244 | \$ 5,284,073 | \$ 5,100,223 |

See independent auditor's report and accompanying notes to financial statements.

DOLPHIN SCHOLARSHIP FOUNDATION

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

| | Program Services | Management and General | Fundraising | 2018 Total | Comparative 2017 Total |
|-------------------------------------|---------------------|---------------------------|------------------|-------------------|------------------------------|
| Salaries and wages | \$ 57,147 | \$ 20,781 | \$ 25,976 | \$ 103,904 | \$ 101,133 |
| Payroll taxes | 4,372 | 1,590 | 1,987 | 7,949 | 7,737 |
| Total salaries and related expenses | \$ 61,519 | \$ 22,371 | \$ 27,963 | \$ 111,853 | \$ 108,870 |
| Scholarship awards, net of refunds | 385,617 | - | - | 385,617 | 376,900 |
| Occupancy expense | 15,911 | 3,409 | 3,409 | 22,729 | 21,674 |
| Investments fees | | 15,194 | - | 15,194 | 14,307 |
| Technology and website | 8,288 | 1,776 | 1,776 | 11,840 | 5,540 |
| Depreciation | 8,277 | 1,774 | 1,774 | 11,825 | 8,782 |
| Professional fees | 3,919 | 960 | 1,005 | 5,884 | 5,843 |
| Equipment rental and maintenance | - | 4,905 | 313 | 5,218 | 5,541 |
| Telephone | 3,174 | 680 | 680 | 4,534 | 5,302 |
| Insurance | 2,684 | 575 | 575 | 3,834 | 3,250 |
| Travel | 3,288 | - | - | 3,288 | 2,605 |
| Office expense | 1,096 | - | 1,223 | 2,319 | 1,131 |
| Registration fees | 2,148 | - | - | 2,148 | 1,675 |
| Bank fees | - | - | 2,243 | 2,243 | 786 |
| Postage | 420 | 434 | 502 | 1,356 | 2,302 |
| Miscellaneous expense | 5 | - | - | 5 | 248 |
| Security | 335 | 72 | 72 | 479 | 358 |
| Conferences and meetings | 212 | 46 | 46 | 304 | 713 |
| Marketing | 459 | - | - | 459 | 1,071 |
| Total expenses | <u>\$ 497,352</u> | <u>\$ 52,196</u> | <u>\$ 41,581</u> | <u>\$ 591,129</u> | <u>\$ 566,898</u> |

See independent auditor's report and accompanying notes to financial statements.

DOLPHIN SCHOLARSHIP FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

| | 2018 | 2017 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 183,850 | \$ 175,889 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 11,825 | 8,782 |
| Donated investments included in contributions | (9,177) | (7,903) |
| Net realized and unrealized gain on investments | (247,542) | (191,531) |
| (Increase) decrease in assets: | | |
| Accrued investment income | 1,525 | 2,971 |
| Accounts receivable | 11,262 | 21,160 |
| Inventory | (751) | 1,682 |
| Prepaid expenses | 827 | 211 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (2,211) | 4,788 |
| Payroll taxes withheld and accrued expenses | 2,137 | (1,768) |
| Deferred revenue | (10,500) | 10,500 |
| | | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (58,756) | \$ 24,781 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of furniture and equipment | \$ (8,000) | \$ (12,321) |
| Proceeds from sale of investments | 677,787 | 773,757 |
| Purchases of investments | (575,533) | (804,605) |
| | | |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | \$ 94,254 | \$ (43,169) |
| | | |
| NET CHANGES IN CASH AND CASH EQUIVALENTS | \$ 35,499 | \$ (18,388) |
| | | |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 146,076 | 164,464 |
| | | |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 181,575 | \$ 146,076 |
| | | |
| | | |
| SUPPLEMENTAL DATA FOR NONCASH INVESTING: | | |
| Donated investments | \$ 9,177 | \$ 7,903 |

See independent auditor's report and accompanying notes to financial statements.

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - ORGANIZATION:

The Dolphin Scholarship Foundation (the "Foundation") is a non-profit organization established to ease the financial burden of undergraduate and vocational education for eligible members of the U.S. Submarine Force and their dependents. These personnel must have served actively for a minimum of eight years in the submarine fleet or actively for a minimum of ten years in a support group to the submarine fleet.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and are presented in accordance with the recommendations of the Financial Accounting Standards Board. The Foundation reports information regarding its financial position and activities according to three classes of net assets, as follows:

- Unrestricted amounts are those currently available, at the discretion of the Board of Directors, for use in the operations and those resources invested in furniture and equipment.
- Temporarily restricted amounts are those that are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.
- Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The Foundation maintained no such balances as of June 30, 2018 and 2017.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Recognition of Restrictions on Assets

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Donated Services

The Foundation recognizes in-kind contributions as revenue and expense in the period in which they are received. No amounts have been reflected in the accompanying financial statements for volunteer services since they are not susceptible to objective measurement or valuation; however, a number of volunteers donated significant amounts of their time performing services that would otherwise be performed by paid employees.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. 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. Money market funds maintained with investment portfolios are included with investments. Unrealized gains and losses are reported as changes in net assets in accompanying statements of activities. Realized gains and losses on investment transactions are determined on an average cost basis.

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventory

Inventory is stated at the lower of cost or market, using the first-in, first-out method.

Furniture and Equipment

Purchased items are stated at cost and donated items are stated at fair market value at the date of the gift. It is the Foundation's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Depreciation is provided on the straight-line method over the estimated useful lives of the assets of 5 to 7 years. Gains and losses arising from retirements or dispositions are recognized in the period incurred.

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$11,825 and \$8,782, respectively.

Income Taxes

Dolphin Scholarship Foundation, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an unexempt Foundation as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Currently the Foundation has no obligation for any unrelated business income tax. The Foundation believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements; however, any penalties and interest incurred as a result of uncertain tax positions would be recorded in general administration. The Foundation's federal return of Foundation Exempt from Income Tax (Form 990) for 2017, 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Public Support and Revenue

The Foundation receives most of its public support from individuals, corporate donations, and from profits of Dolphin stores and other fund-raising activities controlled by various submarine officers' spouses' clubs. Profits from these organization are remitted to the Dolphin Scholarship Foundation.

Functional Allocation of Expenses

The cost of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs are allocated among the programs and supporting services benefited.

Advertising Costs

The Foundation expenses the cost of advertising when incurred. Advertising costs amounted to \$459 and \$1,071 for the years ended June 30, 2018 and 2017, respectively.

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Summarized Comparative 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 Foundation's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE 3 - CONCENTRATION OF RISK:

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and temporary cash investments. The Foundation places its cash and temporary cash investments with high credit quality depositories.

Financial instruments which potentially subject the Foundation to credit risk principally consist of temporary cash investments and securities. To minimize this risk, the Foundation places their cash and securities with high credit quality financial institutions insured by the FDIC and SIPC. Cash and cash equivalents are secured by the FDIC up to a standard maximum deposit insurance amount of \$250,000 per bank per entity for interest and non-interest bearing accounts. Securities are protected by the SIPC, which currently protects brokerage accounts of each entity up to \$500,000. As of June 30, 2018 and 2017, the Foundation did not have demand deposits on hand in financial institutions that exceeded the FDIC coverage guaranty for the years ended June 30, 2018 and 2017. As of June 30, 2018 and 2017, the Foundation had securities in excess of protected SIPC amounts of \$4,483,439 and \$4,207,611, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS:

FASB (ASC) 820, Fair Value Measurements and Disclosures, establishes a 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 three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive
- inputs other than quoted prices that are observable for the asset or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The 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.

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued):

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Common stock, corporate bonds, and U.S. Government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2018 and 2017.

Assets at Fair Value as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds | \$ 75,264 | \$ - | \$ - | \$ 75,264 |
| U.S. Government obligations | 928,734 | - | - | 928,734 |
| Corporate bonds | 985,327 | - | - | 985,327 |
| Corporate stocks | 3,069,379 | - | - | 3,069,379 |
| Total investments | <u>\$ 5,058,704</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,058,704</u> |

Assets at Fair Value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds | \$ 196,629 | \$ - | \$ - | \$ 196,629 |
| U.S. Government obligations | 699,157 | - | - | 699,157 |
| Corporate bonds | 1,130,060 | - | - | 1,130,060 |
| Corporate stocks | 2,878,393 | - | - | 2,878,393 |
| Total investments | <u>\$ 4,904,239</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,904,239</u> |

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended:

| | Unrestricted | Temporarily Restricted | Total |
|--|-------------------|---------------------------|-------------------|
| June 30, 2018 | | | |
| Interest and dividends | \$ 113,341 | \$ 13,400 | \$ 126,741 |
| Realized and unrealized gains and (losses) | 222,290 | 25,252 | 247,542 |
| Total investment return (loss) | <u>\$ 335,631</u> | <u>\$ 38,652</u> | <u>\$ 374,283</u> |
| June 30, 2017 | | | |
| Interest and dividends | \$ 122,304 | \$ 12,225 | \$ 134,529 |
| Realized and unrealized gains | 173,843 | 17,688 | 191,531 |
| Total investment return | <u>\$ 296,147</u> | <u>\$ 29,913</u> | <u>\$ 326,060</u> |

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued):

The Board of Directors believes that to achieve the greatest likelihood of meeting investment objectives and the best balance between risk and return for optimal diversification, the Foundation allocates assets in accordance with the target and allowance variation for each class as stated below:

| Asset Classes | Target Allocation | Allowable Range |
|---------------------|----------------------|--------------------|
| Fixed income - U.S. | 49% | 40 - 60% |
| Equity - U.S. | 50% | 40 - 60% |
| Cash | 1% | 1 - 5% |

Consistent with the Dolphin Foundation Spending Policy, it is anticipated that up to 8% of the value of the Fund will be disbursed annually, normally in July or November of each year. Therefore, at least 10% of the Fund will be invested in instruments that can be quickly converted to cash with no significant adverse changes in value as a result of the liquidation.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS:

The composition of temporarily restricted net assets and the changes in temporarily restricted net assets at June 30, 2018 and 2017 are as follows:

| | Laura W. Bush Scholarship | Nautilus Educational Assistance Fund | USS Hampton Scholarship | Total |
|--|------------------------------|---|----------------------------|------------|
| Temporarily restricted net assets, July 1, 2016 | \$ 331,372 | \$ 70,549 | \$ - | \$ 401,921 |
| Contributions | - | 16,090 | 57,969 | 74,059 |
| Interest and dividends income | 9,859 | 2,383 | 174 | 12,416 |
| Realized and unrealized gain | 13,939 | 3,711 | 67 | 17,717 |
| Investment fees | (1,029) | (237) | - | (1,266) |
| Amounts appropriated for expenditure | (8,500) | (1,000) | - | (9,500) |
| Temporarily restricted net assets, June 30, 2017 | \$ 345,641 | \$ 91,496 | \$ 58,210 | \$ 495,347 |
| Contributions | - | 15,625 | - | 15,625 |
| Interest and dividends income | 9,901 | 2,802 | 1,693 | 14,397 |
| Realized and unrealized gain | 17,522 | 4,761 | 2,968 | 25,252 |
| Investment fees | (1,088) | (303) | (185) | (1,576) |
| Amounts appropriated for expenditure | (6,800) | (1,000) | - | (7,800) |
| Temporarily restricted net assets, June 30, 2018 | \$ 365,176 | \$ 113,382 | \$ 62,686 | \$ 541,244 |

The Laura W. Bush Scholarship was established to provide up to three scholarships to be awarded annually to children and stepchildren of current or former crew members of the USS Texas that meet certain eligibility requirements. The scholarships are in the amount being awarded by the Foundation in its regular scholarship program. Two scholarships totaling \$6,800 were awarded for the years ended June 30, 2018 and 2017.

The Nautilus Educational Assistance Fund (NEAF) was established to provide scholarships to be known as Nautilus Scholarships. It was established to honor the crewmembers of USS Nautilus. Scholarships are to be paid from the income of the fund for the benefit of spouses, children, grandchildren, and great grandchildren (including stepchildren and grandchildren) of a current or former crewmember that meets certain eligibility requirements. One scholarship totaling \$1,000 was awarded for the years ended June 30, 2018 and 2017.

DOLPHIN SCHOLARSHIP FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS (Continued):

As of May 16, 2017, the USS Hampton Scholarship (SSN 767) was established to award two scholarships annually to two current or former crew members of the USS Hampton (SSN 767), their spouses, children, and stepchildren that meet certain eligibility requirements. No scholarships were awarded for the year ended June 30, 2018.

At such time as it is determined by the board of Directors of the Foundation that there are no longer any individuals eligible to receive the Laura W. Bush Scholarship, the Nautilus Scholarship, or the USS Hampton Scholarship, the programs will be discontinued. Any funds remaining therein will become part of the unrestricted assets of the Foundation and will be distributed as scholarships as part of the general scholarship program.

Temporarily restricted assets are invested by the Foundation in accordance with rules and investment policies of the Foundation adopted by the Board of Directors.

NOTE 6 - OPERATING LEASE COMMITMENT:

The Foundation has an operating lease for its office facility. The original lease began on September 1, 2008 and ran through August 31, 2013. The lease has been amended effective September 1, 2017 to run until August 31, 2020. Rent expense for 2018 and 2017 were \$20,304 and \$19,826, respectively.

Future required lease payments are as follows:

| | |
|---------------|-----------|
| June 30, 2019 | 20,400 |
| June 30, 2020 | 20,400 |
| June 30, 2021 | 3,400 |
| Total | \$ 44,200 |

On September 2013, the Foundation entered into a one year sublease agreement with a non-profit organization for a portion of the above office space. The original lease agreement called for rental payments of \$394 per month to be paid to the Foundation through September 14, 2015. The lease was amended on October 1, 2016 to run through August 31, 2017. Thereafter, the sublease shall extend indefinitely until either party gives a sixty (60) day notice of termination. The agreement calls for rental payments of \$464 per month, to be paid to the Foundation. The lessee gave notice and did not renew the lease.

On September 2013, the Foundation entered into a one year sublease agreement with a non-profit organization for a portion of the above office space. The original lease agreement called for rental payments of \$433 per month to be paid to the Foundation through September 15, 2015. The lease was amended on October 1, 2016 to run through July 31, 2017. Thereafter, the sublease shall extend indefinitely until either party gives a sixty (60) day notice of termination. The agreement calls for rental payments of \$482 per month, to be paid to the Foundation. The lessee gave notice and did not renew the lease.

Payments in the amount of \$2,488 and \$13,578 for the above amounts have been reflected as rental income in the statements of activities for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 - SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 18, 2018, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through October 18, 2018 that would require adjustment to, or disclosure in, the financial statements.