



SCHOLARSHIP AMERICA, INC.

Financial Statements and Supplemental Schedules

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SCHOLARSHIP AMERICA, INC.

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Trustees
Scholarship America, Inc.
St. Peter, Minnesota:

We have audited the accompanying statements of financial position of Scholarship America, Inc. (Scholarship America) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Scholarship America's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Scholarship America's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Scholarship America as of June 30, 2009 and 2008, and changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2 and 5 to the financial statements, Scholarship America adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, as of July 1, 2008. Additionally, as discussed in notes 2 and 7 to the financial statements, Scholarship America adopted FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, as of August 1, 2008.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 30, 2009

SCHOLARSHIP AMERICA, INC.

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 32,678,331	33,547,932
Accounts, interest, and other receivables	2,676,163	2,941,225
Contributions receivable, net (note 3)	786,452	903,353
Prepaid expenses and other assets	281,483	236,705
Total current assets	<u>36,422,429</u>	<u>37,629,215</u>
Contributions receivable, less current portion, net (note 3)	<u>616,358</u>	<u>756,963</u>
Investments (note 4)	<u>133,184,824</u>	<u>151,013,448</u>
Cash value of life insurance	<u>242,601</u>	<u>242,525</u>
Property and equipment:		
Land	329,436	329,436
Building and improvements	4,674,363	4,578,663
Furniture and equipment	3,309,018	3,284,250
	<u>8,312,817</u>	<u>8,192,349</u>
Less accumulated depreciation	<u>5,286,373</u>	<u>5,011,425</u>
Property and equipment, net	<u>3,026,444</u>	<u>3,180,924</u>
Total assets	<u>\$ 173,492,656</u>	<u>192,823,075</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 813,287	652,536
Accrued expenses	405,474	219,053
Current portion of long-term debt (note 6)	123,649	79,524
Scholarships payable	17,486,314	18,055,341
Refundable deposits	20,989,033	19,982,698
Total current liabilities	<u>39,817,757</u>	<u>38,989,152</u>
Long-term debt (note 6)	<u>1,724,604</u>	<u>1,873,542</u>
Total liabilities	<u>41,542,361</u>	<u>40,862,694</u>
Commitments (note 9)	—	—
Net assets:		
Unrestricted:		
Designated for endowment	1,002,115	1,173,698
Undesignated	6,661,178	7,143,367
Total unrestricted	<u>7,663,293</u>	<u>8,317,065</u>
Temporarily restricted (note 8)	110,177,215	124,517,661
Permanently restricted (note 8)	14,109,787	19,125,655
Total net assets	<u>131,950,295</u>	<u>151,960,381</u>
Total liabilities and net assets	<u>\$ 173,492,656</u>	<u>192,823,075</u>

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Activities

Years ended June 30, 2009 and 2008

	2009	2008
Changes in unrestricted net assets:		
Total scholarships raised	\$ 151,578,497	144,513,035
Less scholarships designated by donors for specific beneficiaries	(66,096,747)	(65,986,338)
Scholarship revenue	85,481,750	78,526,697
Program management fees	9,339,573	9,318,457
Investment income (note 4)	64,097	1,528,686
Contributions	357,276	439,062
Other income	483,335	498,688
Dollars for Scholars®	379,067	367,454
ScholarShop®	17,035	34,843
Revenues and support	96,122,133	90,713,887
Net assets released from restrictions:		
Satisfaction of program restrictions	19,356,957	13,670,706
Total unrestricted revenues and support	115,479,090	104,384,593
Expenses:		
Program services:		
Total scholarship distributions	169,084,522	156,445,331
Less scholarships designated by donors for specific beneficiaries	(66,096,747)	(65,986,338)
Scholarship awards	102,987,775	90,458,993
Scholarship Management Services™	4,711,431	4,299,226
Dollars for Scholars®	2,132,871	2,222,424
ScholarShop®	60,977	74,422
Supporting services:		
General and administration	4,318,178	4,755,266
Fund-raising	1,921,630	1,637,203
Total expenses	116,132,862	103,447,534
Change in unrestricted net assets	(653,772)	937,059
Changes in temporarily restricted net assets:		
Contributions and project grants	6,094,144	8,247,134
Change in donor restrictions	5,031,564	—
Investment (loss) income (note 4)	(6,109,197)	633,960
Net assets released from restrictions:		
Satisfaction of program restrictions	(19,356,957)	(13,670,706)
Change in temporarily restricted net assets	(14,340,446)	(4,789,612)
Changes in permanently restricted net assets:		
Endowment contributions	15,696	1,664,118
Change in donor restrictions	(5,031,564)	—
Change in permanently restricted net assets	(5,015,868)	1,664,118
Change in net assets	(20,010,086)	(2,188,435)
Net assets:		
Balance at beginning of year	151,960,381	154,148,816
Balance at end of year	\$ 131,950,295	151,960,381

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (20,010,086)	(2,188,435)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	274,948	299,381
Unrealized losses on investments	11,295,151	5,929,888
Realized losses (gains) on sale of investments	457,504	(869,875)
Scholarships distributed and designated by donors for specific beneficiaries	(66,096,747)	(65,986,338)
Scholarships raised and designated by donors for specific beneficiaries	66,096,747	65,986,338
Permanently restricted contributions	(15,696)	(1,664,118)
Changes in assets and liabilities:		
Accounts, interest, and other receivables	265,062	70,045
Contributions receivable	257,506	263,581
Prepaid expenses and other assets	(44,778)	(76,849)
Cash value of life insurance	(76)	27,026
Accounts payable	160,751	28,506
Scholarships payable	(569,027)	(2,058,333)
Accrued expenses	186,421	36,500
Refundable deposits	1,006,335	2,722,571
Net cash (used in) provided by operating activities	(6,735,985)	2,519,888
Cash flows from investing activities:		
Purchase of investments	(6,607,745)	(13,832,005)
Proceeds from sale of investments	12,683,714	12,085,996
Purchase of property and equipment	(120,468)	(147,507)
Net cash provided by (used in) investing activities	5,955,501	(1,893,516)
Cash flows from financing activities:		
Contributions received	15,696	1,664,118
Repayments of long-term debt	(104,813)	(81,283)
Net cash (used in) provided by financing activities	(89,117)	1,582,835
(Decrease) increase in cash and cash equivalents	(869,601)	2,209,207
Cash and cash equivalents at beginning of year	33,547,932	31,338,725
Cash and cash equivalents at end of year	\$ 32,678,331	33,547,932
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 67,861	113,992

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(1) Organization

Scholarship America, Inc. (Scholarship America) is a nonprofit corporation organized under the laws of the Commonwealth of Massachusetts to mobilize America through scholarships and educational support to make postsecondary education possible for all students. Until January 2003, the corporation was known as Citizens' Scholarship Foundation of America.

The financial statements include the Dollars for Scholars® regional offices that provide national support to Dollars for Scholars® chapters. The financial statements do not include assets, liabilities, revenues, or expenses of the individual Dollars for Scholars® chapters, because these chapters are treated as independent organizations.

In fiscal year 2002, the Families of Freedom Scholarship Fund (the Fund) was created to provide education assistance for postsecondary study to financially needy dependents of those killed or permanently disabled as a result of the terrorist attacks on September 11, 2001, and during the rescue activities related to those attacks. The Fund is intended for children and spouses of the victims, including airplane crew and passengers, World Trade Center and Pentagon workers and visitors, and rescue workers, including firefighters, emergency medical personnel, and law enforcement personnel. Assistance from the Fund must be used to defray costs of education at accredited colleges, universities, or vocational-technical schools based in the United States. Scholarship America may from time to time assess a charge to income of the Fund in an amount reasonably calculated to reimburse Scholarship America's direct and indirect costs incurred in the administration of the Fund.

(2) Summary of Significant Accounting Policies

The accounting policies of Scholarship America conform to U.S. generally accepted accounting principles. The significant accounting policies followed by Scholarship America are set forth below.

(a) *Basis of Presentation*

The financial statements of Scholarship America have been prepared on the accrual basis of accounting.

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

Unrestricted Net Assets

This classification contains net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

This classification includes net assets that have been restricted by donors for specific purposes or are not available for use until a specific time. These consist primarily of contributions, project grants, and investment income of temporarily restricted net assets and return on donor-restricted endowments not yet appropriated for expenditure under Scholarship America's endowment spending policy.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

Permanently Restricted Net Assets

This classification includes net assets that have been restricted by donors who stipulate the resources be maintained permanently by Scholarship America.

(b) Accounting for Scholarships

Scholarship America follows the guidance of Financial Accounting Standards Board (FASB) Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, for its scholarship programs. Under FASB Statement No. 136, scholarship programs where the beneficiary has been specified by the donor or the determination of the beneficiary is under the control of another third party are treated as agency transactions and are not reported as scholarship revenues or scholarship distribution expenses in the statements of activities unless Scholarship America has variance power with respect to the determination of the beneficiary. Variance power is the unilateral ability to redirect the use of the transferred assets to another beneficiary. Recognizing that designated scholarships (agency transactions) are a significant element of activities, they are included in scholarships raised and deducted from that amount to calculate scholarship revenue.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and temporary investments with original maturities of less than three months when purchased.

(d) Investments

Investments excluding certificate of deposits, are reported at fair value based on quoted market prices. Certificate of deposits reported at cost, which approximates fair value.

(e) Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost. Donated property and equipment is capitalized at fair value on the date of receipt. Depreciation is provided using the straight-line method over estimated useful lives as follows:

	<u>Years</u>
Building and improvements	35
Furniture and equipment	3 – 12

(f) Contributed Services

A number of volunteers have made significant donations of their time to program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(g) Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor.

Promises to give are recorded as contributions receivable using a discount rate of 5%. Additionally, an allowance for uncollectible contributions is provided based on management's judgment, including factors such as prior collection history and nature of fund-raising activity.

Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When a donor-imposed time restriction expires, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restriction on the statements of activities.

Contributions of land, buildings, and equipment are recorded as unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Scholarship America reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

(h) Scholarships Payable and Refundable Deposits

Scholarships payable represent awards that have been made that Scholarship America has not yet distributed to the beneficiaries. Refundable deposits represent amounts held by Scholarship America for scholarship programs that, under terms of the program agreement, are refundable or revocable at the discretion of the resource provider. Refundable deposits also include amounts held by Scholarship America in connection with agreements that have stipulations that the assets be passed on to specific beneficiaries.

(i) Program Management Fees

Program management fees are recognized as revenue as the fees are earned. Approximately two-thirds of the program management fees are recognized as the program is developed and applications are processed, with the remaining one-third being recognized after final scholarship distributions have been made.

(j) Grants

Restricted grants are recognized as revenue and support only to the extent that expenses have been incurred during the period for the purpose specified.

(k) Functional Expenses

Scholarship America's financial statements segregate expenses by function, including general, administration, and fund-raising. Expenses are charged directly to specific functions when

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Notes to Financial Statements

June 30, 2009 and 2008

practicable. Expenses not identified as relating to specific functions are allocated primarily based on direct salary costs.

(l) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of 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.

(m) Income Tax Status

Scholarship America is a nonprofit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3), is a publicly supported organization under Internal Revenue Code Section 170(b)(1)(A)(vi), and is not a private foundation as defined in Section 509(a) of the Internal Revenue Code.

Scholarship America has elected to defer the application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Scholarship America follows FASB Statement No. 5, *Accounting for Contingencies*, for evaluating uncertain tax positions.

(n) Retirement Plan

Scholarship America has a 403(b) annuity retirement plan that covers substantially all employees. Employee participation is optional. Scholarship America contributes an amount equal to 4% of the employee's annual salary, which resulted in Scholarship America's contributions to the plan totaling \$258,824 and \$241,463 during the years ended June 30, 2009 and 2008, respectively. Effective May 31, 2009, the 403(b) annuity retirement plan was terminated.

(o) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents; accounts, interest, and other receivables; accounts payable and accrued expenses; scholarships payable; and refundable deposits approximate fair value because of the short maturity of these financial instruments. The fair value of cash surrender values of insurance policies is based upon market information provided from the respective insurance companies. Contributions receivable are recorded at the present value of estimated future cash flows using discount rates consistent with the general principles of present value measurement which approximates fair value. Investments are carried at fair value, as indicated in note 2(d). The carry value of long-term debt approximates fair value given the total outstanding amount at fiscal year-end.

(p) Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

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Notes to Financial Statements

June 30, 2009 and 2008

(q) New Accounting Pronouncement

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which establishes a framework for reporting fair value and expands disclosures about fair value measurements. Scholarship America adopted FASB Statement No. 157 on July 1, 2008 and has made the required disclosures in note 5.

In August 2008, Scholarship America adopted the provisions of FASB Staff Position No. 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also required certain disclosures for donor-restricted and board-designated endowment funds. Scholarship America made the required disclosures in note 7.

(3) Contributions Receivable

Contributions are to be collected during the following periods at June 30, 2009 and 2008:

	2009	2008
Less than one year	\$ 827,845	950,898
One to five years	270,000	380,000
Greater than five years	650,000	750,000
	1,747,845	2,080,898
Less:		
Discounts for the time value of money	271,203	333,197
Allowance for uncollectible contributions	73,832	87,385
	\$ 1,402,810	1,660,316

(4) Investments and Investment Income

Investments consisted of the following at June 30, 2009 and 2008:

Carrying value	2009	2008
Cash equivalents and certificates of deposit	\$ 9,853,255	8,919,975
U.S. government obligations	15,405,698	14,453,650
Municipal bonds	—	650,000
Equity mutual funds	34,177,249	45,899,441
Fixed income mutual funds	72,290,878	79,589,674
Corporate bonds and notes	1,457,744	1,500,708
	\$ 133,184,824	151,013,448

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

Investment income is recorded in the statements of activities and comprises the following for the years ended June 30, 2009 and 2008:

	<u>Interest and dividends</u>	<u>Unrealized gain (loss)</u>	<u>Realized gain (loss)</u>	<u>Total</u>
2009:				
Unrestricted	\$ 780,550	(716,660)	207	64,097
Temporarily restricted	4,927,005	(10,578,491)	(457,711)	(6,109,197)
2008:				
Unrestricted	\$ 1,651,665	(84,812)	(38,167)	1,528,686
Temporarily restricted	5,570,994	(5,845,076)	908,042	633,960

(5) Fair Value Measurements

As of July 1, 2008, Scholarship America adopted FASB Statement No. 157, *Fair Value Measurements*, which established a three-level 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 lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted asset or liabilities.
- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such a similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

Valuation levels are not necessarily an indication of the risk associated with investing in those securities.

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Notes to Financial Statements

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<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 8,881,316	—	—	8,881,316
Certificates of deposit	—	971,939	—	971,939
Domestic equities:				
Equity mutual funds	34,177,249	—	—	34,177,249
Debt securities:				
Fixed income mutual funds	72,290,878	—	—	72,290,878
U.S. Treasury bonds and notes	—	14,657,230	—	14,657,230
U.S. government securities	—	748,468	—	748,468
Corporate bonds and notes	—	1,457,744	—	1,457,744
	<u>\$ 115,349,443</u>	<u>17,835,381</u>	<u>—</u>	<u>133,184,824</u>

(6) Long-Term Debt

A summary of long-term debt as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Note payable to The First National Bank of St. Peter with interest at 3.1%, payable in semi-annual installments of \$90,000 through September 2025. Such payments are secured by a mortgage and security interest granted to the creditor by Scholarship America.	\$ 1,848,253	1,943,077
Note payable to the City of St. Peter with interest at 3.00%, payable in monthly installments of \$1,448 through January 2009. Such payments are secured by a mortgage and security interest granted to the creditor by Scholarship America.	—	9,989
	1,848,253	1,953,066
Less current maturities	(123,649)	(79,524)
	<u>\$ 1,724,604</u>	<u>1,873,542</u>

Aggregate annual maturities of long-term debt are as follows:

2010	\$ 123,649
2011	127,512
2012	131,365
2013	135,599
2014	139,835
Thereafter	1,190,293
	<u>\$ 1,848,253</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(7) Endowment Funds

Scholarship America's endowment consists of approximately 40 individual funds established for a variety of purposes including both endowment funds restricted by the donor and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Scholarship America has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Scholarship America classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with donor instructions and the standard of prudence prescribed by the UPMIFA. In accordance with UPMIFA, Scholarship America considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The stated instructions of the donor.
2. The donor's objectives concerning the duration and preservation of the fund.
3. The expected total return from income and the appreciation of investments.

Fund by Fund Analysis

(a) *Endowment Net Asset Composition by Type of Fund*

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (509,983)	1,033,723	13,976,026	14,499,766
Board-designated endowment funds	1,002,115	—	—	1,002,115
Total endowed net assets	<u>492,132</u>	<u>1,033,723</u>	<u>13,976,026</u>	<u>15,501,881</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(b) Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 1,173,698	1,618,136	18,883,131	21,674,965
Investment return:				
Investment income	35,094	486,735	—	521,829
Net loss on investments	<u>(716,660)</u>	<u>(592,659)</u>	<u>—</u>	<u>(1,309,319)</u>
Total investment return	(681,566)	(105,924)	—	(787,490)
Contributions	—	—	19,308	19,308
Appropriation of endowment assets for expenditure	—	(478,489)	—	(478,489)
Change in donor restrictions	<u>—</u>	<u>—</u>	<u>(4,926,413)</u>	<u>(4,926,413)</u>
Endowment net assets, June 30, 2009	<u>492,132</u>	<u>1,033,723</u>	<u>13,976,026</u>	<u>15,501,881</u>

(c) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires Scholarship America to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$(509,983) as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in temporarily restricted net assets.

(d) Return Objectives and Risk Parameters and Strategies Employed for Achieving Objectives

Each endowment fund is supported by an underlying agreement with the donor in which the spending level and the underlying investment mix is outlined. (If no mix is specified, the selection defaults to 70% bonds and 30% equities.) Most funds include an investment placed in one of two equity funds plus one of two bond funds; an index fund is one of the options. Fund performance is expected to at least equal the S&P 500 or the Barclays Capital Aggregate Bond Index. Typically, dividends and interest are available for expenditure because the funds focus on current need rather than maintaining a perpetual fund of constant purchasing power.

(e) Spending Policy and How Investment Objectives Relate to Spending Policy

The board-designated endowment is invested at the default ratio in index funds. The board allows 5% of a 12-quarter moving average to be used for operations; however, to date, earnings have been returned to the fund.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(8) Temporarily and Permanently Restricted Net Assets

Donor-restricted, temporarily restricted net assets are available at June 30, 2009 and 2008 for the following purposes:

	2009	2008
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consists of:		
Scholarships	\$ 999,472	—
Regions	34,251	—
	1,033,723	—
Gifts and other unexpended revenues and support available for:		
Scholarships	107,989,887	121,729,977
Regions	421,106	670,607
Other projects	732,499	2,117,077
	\$ 110,177,215	124,517,661

Donor-restricted permanently restricted net asset balances at June 30, 2009 and 2008 and the purposes for which the income can be used are as follows:

	2009	2008
Endowment fund for:		
Scholarships	\$ 12,298,296	17,205,401
Regions	1,677,730	1,677,730
	13,976,026	18,883,131
Nonendowment funds for scholarships	133,761	242,524
	\$ 14,109,787	19,125,655

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(9) Leases

Rental expense for office space was \$359,630 and \$394,958 for the years ended June 30, 2009 and 2008, respectively. Lease agreements having an original term of more than one year expire on various dates through fiscal year 2014. Minimum annual payments under terms of these operating leases are as follows:

Year ending June 30:		
2010	\$	219,210
2011		91,132
2012		92,368
2013		95,278
2014		98,188
Thereafter		8,203
	\$	<u>604,379</u>

(10) Supporting Services Expense Ratios

Scholarship America's supporting services expense ratios as a percentage of unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries, for the years ended June 30, 2009 and 2008 are as follows:

	2009		2008	
General and administration	\$ 4,318,178	3.74%	\$ 4,755,266	4.56%
Fund-raising	<u>1,921,630</u>	<u>1.66</u>	<u>1,637,203</u>	<u>1.57</u>
Total	<u>\$ 6,239,808</u>	<u>5.40%</u>	<u>\$ 6,392,469</u>	<u>6.13%</u>
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries				
	\$ 115,479,090		\$ 104,384,593	

Fund-raising costs also include costs related to the generation of scholarships raised and designated by donors for specific beneficiaries.

(11) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued FASB Statement No. 165, *Subsequent Events*, Scholarship America evaluated subsequent events after the balance sheet date of June 30, 2009 through October 30, 2009 which was the date the financial statements were issued.

SCHOLARSHIP AMERICA, INC.
 Families of Freedom Scholarship Fund
 Schedule of Financial Position
 June 30, 2009

Assets

Current assets:	
Cash and cash equivalents	\$ 504,154
Contributions receivable, net	712,500
Total current assets	1,216,654
Contributions receivable, less current portion, net	598,693
Investments	91,237,412
Total assets	\$ 93,052,759

Liabilities and Net Assets

Refundable deposits	\$ 6,330,341
Net assets:	
Temporarily restricted	86,722,418
Total liabilities and net assets	\$ 93,052,759

See accompanying independent auditors' report.

Schedule 2

SCHOLARSHIP AMERICA, INC.

Families of Freedom Scholarship Fund

Schedule of Activities

Year ended June 30, 2009

Changes in unrestricted net assets:	
Net assets released from restrictions:	
Satisfaction of program restrictions	\$ 11,086,940
Total unrestricted revenues and support	<u>11,086,940</u>
Expenses:	
Program services:	
Scholarship awards	10,652,590
Scholarship Management Services™	233,064
Supporting services:	
General and administration	154,898
Fund-raising	46,388
Total expenses	<u>11,086,940</u>
Change in unrestricted net assets	<u>—</u>
Changes in temporarily restricted net assets:	
Contributions for scholarships	1,656,295
Investment loss	(4,459,926)
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(11,086,940)</u>
Change in temporarily restricted net assets	<u>(13,890,571)</u>
Change in net assets	(13,890,571)
Net assets:	
Balance at beginning of year	<u>100,612,989</u>
Balance at end of year	<u>\$ 86,722,418</u>

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Schedule of Functional Expenses

Year ended June 30, 2009

	Program services				Supporting services		Total
	Scholarship awards	Scholarship Management Services™	Dollars for Scholars®	ScholarShop®	General and administrative	Fund-raising	
Scholarship awards	\$ 102,987,775	—	—	—	—	—	102,987,775
Personnel	—	3,445,755	1,486,951	41,146	2,639,910	1,525,893	9,139,655
Meetings and travel	—	157,103	175,941	392	281,551	146,622	761,609
Telephone	—	33,026	29,731	861	27,386	31,980	122,984
Printing	—	141,303	39,627	340	36,858	9,860	227,988
Professional services	—	162,498	117,592	—	826,403	66,309	1,172,802
Publicity and promotion	—	245	90,229	365	57,023	25,225	173,087
Cost of sales	—	—	4,066	6,064	—	—	10,130
Postage	—	212,330	29,272	1,666	18,648	5,699	267,615
Occupancy	—	170,825	79,605	3,216	222,996	82,698	559,340
Insurance	—	52,676	19,905	1,212	17,382	8,185	99,360
Supplies and equipment	—	97,320	37,000	1,060	79,108	6,853	221,341
Dues and subscriptions	—	1,907	1,864	—	12,028	4,663	20,462
Depreciation	—	177,903	16,077	3,428	72,853	4,687	274,948
Miscellaneous	—	58,540	5,011	1,227	26,032	2,956	93,766
Total expenses	\$ 102,987,775	4,711,431	2,132,871	60,977	4,318,178	1,921,630	116,132,862

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Dollars for Scholars® Chartered Regions Financial Report

Year ended June 30, 2009

	<u>New England</u>	<u>Iowa</u>	<u>New York</u>	<u>Northwest</u>	<u>California</u>	<u>Indiana</u>	<u>Illinois</u>	<u>Total</u>
Revenues:								
Grants and contributions	\$ 12,444	29,476	17,587	112,709	97,017	231,911	204,739	705,883
Dues	47,710	25,980	25,410	21,780	10,645	13,960	9,150	154,635
Investment (loss) income	(202,631)	2,474	422	526	595	9,537	2,348	(186,729)
Total revenues	<u>(142,477)</u>	<u>57,930</u>	<u>43,419</u>	<u>135,015</u>	<u>108,257</u>	<u>255,408</u>	<u>216,237</u>	<u>673,789</u>
Expenses:								
Staff	149,280	88,519	87,430	170,597	143,709	167,153	77,442	884,130
Travel	1,411	6,120	5,094	3,635	3,469	6,410	18,495	44,634
Program	20,127	8,710	11,690	18,461	14,431	97,508	199,075	370,002
Office	23,529	12,566	8,964	14,950	28,499	1,696	4,883	95,087
Total expenses	<u>194,347</u>	<u>115,915</u>	<u>113,178</u>	<u>207,643</u>	<u>190,108</u>	<u>272,767</u>	<u>299,895</u>	<u>1,393,853</u>
Deficit	(336,824)	(57,985)	(69,759)	(72,628)	(81,851)	(17,359)	(83,658)	(720,064)
Net assets at beginning of year	<u>1,589,604</u>	<u>179,091</u>	<u>(82,072)</u>	<u>(117,934)</u>	<u>(11,192)</u>	<u>586,848</u>	<u>169,326</u>	<u>2,313,671</u>
Net assets at end of year	\$ <u>1,252,780</u>	<u>121,106</u>	<u>(151,831)</u>	<u>(190,562)</u>	<u>(93,043)</u>	<u>569,489</u>	<u>85,668</u>	<u>1,593,607</u>

See accompanying independent auditors' report.