



**SCHOLARSHIP AMERICA, INC.**

Financial Statements and Supplemental Schedules

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

# SCHOLARSHIP AMERICA, INC.

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## 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, 2010 and 2009, 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, 2010 and 2009, and changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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 21, 2010

**SCHOLARSHIP AMERICA, INC.**

Statements of Financial Position

June 30, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and cash equivalents	\$ 33,699,974	32,678,331
Accounts, interest, and other receivables	2,561,486	2,676,163
Contributions receivable, net (note 3)	541,213	786,452
Prepaid expenses and other assets	269,573	281,483
Total current assets	<u>37,072,246</u>	<u>36,422,429</u>
Contributions receivable, less current portion, net (note 3)	<u>620,794</u>	<u>616,358</u>
Investments (note 4)	<u>136,141,871</u>	<u>133,184,824</u>
Cash value of life insurance	<u>241,119</u>	<u>242,601</u>
Property and equipment:		
Land	329,436	329,436
Building and improvements	4,690,859	4,674,363
Furniture and equipment	3,398,700	3,309,018
	<u>8,418,995</u>	<u>8,312,817</u>
Less accumulated depreciation	<u>5,521,013</u>	<u>5,286,373</u>
Property and equipment, net	<u>2,897,982</u>	<u>3,026,444</u>
Total assets	<u>\$ 176,974,012</u>	<u>173,492,656</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 441,636	813,287
Accrued expenses	191,857	405,474
Current portion of long-term debt (note 6)	127,512	123,649
Scholarships payable	16,788,695	17,486,314
Refundable deposits	21,215,925	20,989,033
Total current liabilities	<u>38,765,625</u>	<u>39,817,757</u>
Long-term debt (note 6)	<u>1,596,938</u>	<u>1,724,604</u>
Total liabilities	<u>40,362,563</u>	<u>41,542,361</u>
Commitments (note 9)		
Net assets:		
Unrestricted:		
Designated for endowment	1,118,637	1,002,115
Undesignated	7,119,166	6,661,178
Total unrestricted	<u>8,237,803</u>	<u>7,663,293</u>
Temporarily restricted (note 8)	114,211,725	110,177,215
Permanently restricted (note 8)	14,161,921	14,109,787
Total net assets	<u>136,611,449</u>	<u>131,950,295</u>
Total liabilities and net assets	<u>\$ 176,974,012</u>	<u>173,492,656</u>

See accompanying notes to financial statements.

**SCHOLARSHIP AMERICA, INC.**

Statements of Activities

Years ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Changes in unrestricted net assets:		
Total scholarships raised	\$ 130,769,637	151,578,497
Less scholarships designated by donors for specific beneficiaries	(54,812,957)	(66,096,747)
Scholarship revenue	75,956,680	85,481,750
Program management fees	8,502,394	9,339,573
Investment income (note 4)	486,564	64,097
Contributions	351,306	357,276
Other income	381,093	483,335
Dollars for Scholars®	502,607	379,067
ScholarShop®	28,925	17,035
Revenues and support	86,209,569	96,122,133
Net assets released from restrictions:		
Satisfaction of program restrictions	19,188,759	19,356,957
Total unrestricted revenues and support	105,398,328	115,479,090
Expenses:		
Program services:		
Total scholarship distributions	148,015,779	169,084,522
Less scholarships designated by donors for specific beneficiaries	(54,812,957)	(66,096,747)
Scholarship awards	93,202,822	102,987,775
Scholarship Management Services™	4,067,649	4,711,431
Dollars for Scholars®	1,901,045	2,132,871
ScholarShop®	88,918	60,977
Other programs	570,900	—
Supporting services:		
General and administration	3,458,672	4,318,178
Fund-raising	1,533,812	1,921,630
Total expenses	104,823,818	116,132,862
Change in unrestricted net assets	574,510	(653,772)
Changes in temporarily restricted net assets:		
Contributions and project grants	10,194,149	6,094,144
Change in donor restrictions	4,291	5,031,564
Investment income (loss) (note 4)	13,024,829	(6,109,197)
Net assets released from restrictions:		
Satisfaction of program restrictions	(19,188,759)	(19,356,957)
Change in temporarily restricted net assets	4,034,510	(14,340,446)
Changes in permanently restricted net assets:		
Endowment contributions	56,425	15,696
Change in donor restrictions	(4,291)	(5,031,564)
Change in permanently restricted net assets	52,134	(5,015,868)
Change in net assets	4,661,154	(20,010,086)
Net assets:		
Balance at beginning of year	131,950,295	151,960,381
Balance at end of year	\$ 136,611,449	131,950,295

See accompanying notes to financial statements.

**SCHOLARSHIP AMERICA, INC.**

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Change in net assets	\$ 4,661,154	(20,010,086)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	234,640	274,948
Unrealized (gains) losses on investments	(10,072,215)	11,295,151
Realized losses on sale of investments	573,981	457,504
Scholarships distributed and designated by donors for specific beneficiaries	(54,812,957)	(66,096,747)
Scholarships raised and designated by donors for specific beneficiaries	54,812,957	66,096,747
Permanently restricted contributions	(56,425)	(15,696)
Changes in assets and liabilities:		
Accounts, interest, and other receivables	114,677	265,062
Contributions receivable	240,803	257,506
Prepaid expenses and other assets	11,910	(44,778)
Cash value of life insurance	1,482	(76)
Accounts payable	(371,651)	160,751
Scholarships payable	(697,619)	(569,027)
Accrued expenses	(213,617)	186,421
Refundable deposits	226,892	1,006,335
Net cash used in operating activities	(5,345,988)	(6,735,985)
Cash flows from investing activities:		
Purchase of investments	(11,490,226)	(6,607,745)
Proceeds from sale of investments	18,031,413	12,683,714
Purchase of property and equipment	(106,178)	(120,468)
Net cash provided by investing activities	6,435,009	5,955,501
Cash flows from financing activities:		
Contributions received	56,425	15,696
Repayments of long-term debt	(123,803)	(104,813)
Net cash used in financing activities	(67,378)	(89,117)
Increase (decrease) in cash and cash equivalents	1,021,643	(869,601)
Cash and cash equivalents at beginning of year	32,678,331	33,547,932
Cash and cash equivalents at end of year	\$ 33,699,974	32,678,331
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 54,909	67,861

See accompanying notes to financial statements.

## SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2010 and 2009

### (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 (GAAP). 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, 2010 and 2009

**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 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 as set forth in note 5. Certificate of deposits are 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.

**(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.



## SCHOLARSHIP AMERICA, INC.

### Notes to Financial Statements

June 30, 2010 and 2009

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

## SCHOLARSHIP AMERICA, INC.

### Notes to Financial Statements

June 30, 2010 and 2009

**(l) Estimates**

The preparation of financial statements in conformity with U.S. GAAP 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 is subject to income taxes only on net unrelated business income. Scholarship America did not have any unrelated business income for the years ended June 30, 2010 and 2009.

Scholarship America's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Scholarship America has no uncertain tax positions resulting in an accrual of tax expense or benefit.

**(n) Retirement Plan**

Scholarship America had a 403(b) annuity retirement plan until its termination effective May 31, 2009, that covered substantially all employees. Employee participation was optional. Scholarship America contributed an amount equal to 4% of the employee's annual salary. There was no replacement plan in place at June 30, 2010. Scholarship America's contributions to the plan totaled \$0 and \$258,824 during the years ended June 30, 2010 and 2009, respectively.

**(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 carrying value of long-term debt approximates fair value given the total outstanding amount at fiscal year-end.

**(p) Reclassifications**

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

## SCHOLARSHIP AMERICA, INC.

### Notes to Financial Statements

June 30, 2010 and 2009

#### (q) *New Accounting Pronouncement*

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (ASC), which officially commenced July 1, 2009, to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. All other accounting literature excluded from the ASC will be considered nonauthoritative. Scholarship America adopted this standard on June 30, 2010. All references to authoritative accounting literature are now referenced in accordance with the ASC.

#### (3) **Contributions Receivable**

Contributions are to be collected during the following periods at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 569,698	827,845
One to five years	260,000	270,000
Greater than five years	<u>650,000</u>	<u>650,000</u>
	1,479,698	1,747,845
Less:		
Discounts for the time value of money	256,533	271,203
Allowance for uncollectible contributions	<u>61,158</u>	<u>73,832</u>
	<u>\$ 1,162,007</u>	<u>1,402,810</u>

#### (4) **Investments and Investment Income**

Investments consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash equivalents and certificates of deposit	\$ 9,997,319	9,853,255
U.S. government obligations	17,569,961	15,405,698
Equity mutual funds	35,749,457	34,177,249
Fixed income mutual funds	71,336,816	72,290,878
Corporate bonds and notes	<u>1,488,318</u>	<u>1,457,744</u>
	<u>\$ 136,141,871</u>	<u>133,184,824</u>

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended June 30, 2010 and 2009:

	<u>Interest and dividends</u>	<u>Unrealized gain (loss)</u>	<u>Realized gain (loss)</u>	<u>Total</u>
2010:				
Unrestricted	\$ 73,085	403,997	9,482	486,564
Temporarily restricted	3,940,074	9,668,218	(583,463)	13,024,829
2009:				
Unrestricted	\$ 780,550	(716,660)	207	64,097
Temporarily restricted	4,927,005	(10,578,491)	(457,711)	(6,109,197)

**(5) Fair Value Measurements**

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 ASC 820 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 as 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.

Following is a description of the valuation methodologies used for assets measured at fair value:

*Equity mutual funds and fixed income mutual funds:* Valued at their quoted net asset value of shares held at fiscal year-end.

*U.S. Treasury bonds and notes, U.S. government securities, corporate bonds, and notes:* Valued at their quoted market price based on similar instruments held at fiscal year-end.

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

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

<b>June 30, 2010</b>				
<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents	\$ 8,298,774	—	—	8,298,774
Certificates of deposit	—	1,698,545	—	1,698,545
Domestic equities:				
Equity mutual funds	35,749,457	—	—	35,749,457
Debt securities:				
Fixed income mutual funds	71,336,816	—	—	71,336,816
U.S. Treasury bonds and notes	—	16,806,423	—	16,806,423
U.S. government securities	—	763,538	—	763,538
Corporate bonds and notes	—	1,488,318	—	1,488,318
	<u>\$ 115,385,047</u>	<u>20,756,824</u>	<u>—</u>	<u>136,141,871</u>

<b>June 30, 2009</b>				
<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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>

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

**(6) Long-Term Debt**

A summary of long-term debt as of June 30, 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
Note payable to The First National Bank of St. Peter with variable interest rate at 3.1% as of September 2008, which resets in five years to a rate equal to the then most current yield on five-year U.S. Treasury obligations, payable in semiannual installments of \$90,000 through September 2025. Such payments are secured by a mortgage and security interest granted to the creditor by Scholarship America.	\$ 1,724,450	1,848,253
Less current maturities	(127,512)	(123,649)
	\$ 1,596,938	1,724,604

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

2011	\$ 127,512
2012	131,365
2013	135,599
2014	139,835
2015	144,204
Thereafter	1,045,935
	\$ 1,724,450

**(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 the Uniform Prudent Management of Institutional Funds Act (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.

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (180,016)	1,014,477	14,033,277	14,867,738
Board-designated endowment funds	<u>1,118,637</u>	<u>—</u>	<u>—</u>	<u>1,118,637</u>
Total endowment net assets	<u>\$ 938,621</u>	<u>1,014,477</u>	<u>14,033,277</u>	<u>15,986,375</u>

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	<u>1,002,115</u>	<u>—</u>	<u>—</u>	<u>1,002,115</u>
Total endowment 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, 2010 and 2009

**(b) Changes in Endowment Net Assets**

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 492,132	1,033,723	13,976,026	15,501,881
Investment return:				
Investment income	33,234	400,203	—	433,437
Net gain on investments	413,255	614,937	—	1,028,192
Total investment return	446,489	1,015,140	—	1,461,629
Contributions	—	—	61,542	61,542
Appropriation of endowment assets for expenditure	—	(1,034,386)	—	(1,034,386)
Change in donor restrictions	—	—	(4,291)	(4,291)
Endowment net assets, June 30, 2010	\$ <u>938,621</u>	<u>1,014,477</u>	<u>14,033,277</u>	<u>15,986,375</u>

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	(716,660)	(592,659)	—	(1,309,319)
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	—	—	(4,926,413)	(4,926,413)
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>



**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

**(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 \$(180,016) and \$(509,983) as of June 30, 2010 and 2009, respectively. 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.

**(8) Temporarily and Permanently Restricted Net Assets**

Donor-restricted temporarily restricted net assets are available at June 30, 2010 and 2009 for the following purposes:

	<b>2010</b>	<b>2009</b>
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consists of:		
Scholarships	\$ 1,014,477	999,472
Regions	—	34,251
	1,014,477	1,033,723
Gifts and other unexpended revenues and support available for:		
Scholarships	109,603,516	107,989,887
Regions	340,112	421,106
Other projects	3,253,620	732,499
	\$ 114,211,725	110,177,215

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

Donor-restricted permanently restricted net asset balances at June 30, 2010 and 2009 and the purposes for which the income can be used are as follows:

	<b>2010</b>	<b>2009</b>
Endowment fund for:		
Scholarships	\$ 11,365,547	11,308,296
Regions	1,677,730	1,677,730
Other projects	990,000	990,000
	14,033,277	13,976,026
Nonendowment funds for scholarships	128,644	133,761
	\$ 14,161,921	14,109,787

**(9) Leases**

Rental expense for office space was \$302,199 and \$359,630 for the years ended June 30, 2010 and 2009, 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:	
2011	\$ 127,265
2012	105,325
2013	99,435
2014	106,148
	\$ 438,173

**(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, 2010 and 2009 are as follows:

	<b>2010</b>		<b>2009</b>	
General and administration	\$ 3,458,672	3.28%	\$ 4,318,178	3.74%
Fund-raising	1,533,812	1.46%	1,921,630	1.66
Total	\$ 4,992,484	4.74%	\$ 6,239,808	5.40%
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries	\$ 105,398,328		\$ 115,479,090	

**SCHOLARSHIP AMERICA, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

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 ASC 855, *Subsequent Events*, Scholarship America evaluated subsequent events after the statement of financial position date of June 30, 2010 through October 21, 2010, which was the date the financial statements were available to be issued.

**SCHOLARSHIP AMERICA, INC.**  
 Families of Freedom Scholarship Fund  
 Schedule of Financial Position  
 June 30, 2010

**Assets**

Current assets:	
Cash and cash equivalents	\$ 201,940
Contributions receivable, net	550,000
Total current assets	751,940
Contributions receivable, less current portion, net	584,246
Investments	92,175,874
Total assets	\$ 93,512,060

**Liabilities and Net Assets**

Refundable deposits	\$ 6,466,160
Net assets:	
Temporarily restricted	87,045,900
Total liabilities and net assets	\$ 93,512,060

See accompanying independent auditors' report.

**Schedule 2**

**SCHOLARSHIP AMERICA, INC.**

Families of Freedom Scholarship Fund

Schedule of Activities

Year ended June 30, 2010

Changes in unrestricted net assets:	
Net assets released from restrictions:	
Satisfaction of program restrictions	\$ <u>11,477,309</u>
Total unrestricted revenues and support	<u>11,477,309</u>
Expenses:	
Program services:	
Scholarship awards	11,014,066
Scholarship Management Services™	61,144
Supporting services:	
General and administration	377,299
Fund-raising	<u>24,800</u>
Total expenses	<u>11,477,309</u>
Change in unrestricted net assets	<u>—</u>
Changes in temporarily restricted net assets:	
Contributions for scholarships	1,635,614
Investment income	10,165,177
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(11,477,309)</u>
Change in temporarily restricted net assets	<u>323,482</u>
Change in net assets	323,482
Net assets:	
Balance at beginning of year	<u>86,722,418</u>
Balance at end of year	<u>\$ <u>87,045,900</u></u>

See accompanying independent auditors' report.

## SCHOLARSHIP AMERICA, INC.

## Schedule of Functional Expenses

Year ended June 30, 2010

	Program services						Supporting services		Total
	Scholarship awards	Scholarship Management Services™	Dollars for Scholars®	Families of Freedom NYC	Dreamkeepers®	ScholarShop®	General and administrative	Fund-raising	
Scholarship awards	\$ 93,202,822	—	—	—	—	—	—	—	93,202,822
Personnel	—	2,953,172	1,212,969	226,311	60,097	50,194	2,102,670	1,178,314	7,783,727
Meetings and travel	—	91,567	159,469	6,650	11,918	3,488	196,095	111,294	580,481
Telephone	—	47,152	27,318	3,157	909	906	29,938	27,607	136,987
Printing	—	106,676	32,031	6,504	—	481	32,241	14,289	192,222
Professional services	—	174,028	175,843	85,568	126,991	10,000	705,367	77,452	1,355,249
Publicity and promotion	—	432	114,630	110	26,315	10,392	35,599	28,487	215,965
Cost of sales	—	—	1,075	—	—	3,234	—	—	4,309
Postage	—	192,805	17,568	1,310	141	1,312	10,491	6,838	230,465
Occupancy	—	132,049	79,990	—	—	2,669	182,488	66,072	463,268
Insurance	—	57,704	20,429	1,499	—	1,329	25,605	11,027	117,593
Supplies and equipment	—	106,549	32,664	1,312	1,450	1,043	52,117	4,373	199,508
Dues and subscriptions	—	4,875	4,785	70	—	—	3,981	3,176	16,887
Depreciation	—	159,102	11,991	—	—	2,930	58,305	2,311	234,639
Miscellaneous	—	41,538	10,283	45	10,543	940	23,775	2,572	89,696
Total expenses	\$ 93,202,822	4,067,649	1,901,045	332,536	238,364	88,918	3,458,672	1,533,812	104,823,818

See accompanying independent auditors' report.

## SCHOLARSHIP AMERICA, INC.

Dollars for Scholars® Chartered Regions Financial Report

Year ended June 30, 2010

	<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	\$ 21,103	31,742	(18,155)	95,537	94,372	182,035	175,771	582,405
Dues	90,543	31,663	—	32,098	18,710	28,918	16,260	218,192
Investment income	218,477	90	25	18	32	486	90	219,218
Total revenues	<u>330,123</u>	<u>63,495</u>	<u>(18,130)</u>	<u>127,653</u>	<u>113,114</u>	<u>211,439</u>	<u>192,121</u>	<u>1,019,815</u>
Expenses:								
Staff	146,515	87,132	14,902	135,603	89,626	160,283	13,178	647,239
Travel	3,373	4,411	487	3,217	4,242	9,554	10,668	35,952
Program	31,935	18,413	7,827	13,162	15,188	116,456	218,492	421,473
Office	21,714	12,951	1,408	7,961	26,959	2,230	5,450	78,673
Total expenses	<u>203,537</u>	<u>122,907</u>	<u>24,624</u>	<u>159,943</u>	<u>136,015</u>	<u>288,523</u>	<u>247,788</u>	<u>1,183,337</u>
Excess (deficit)	126,586	(59,412)	(42,754)	(32,290)	(22,901)	(77,084)	(55,667)	(163,522)
Net assets at beginning 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>
Net assets at end of year	\$ <u><u>1,379,366</u></u>	<u><u>61,694</u></u>	<u><u>(194,585)</u></u>	<u><u>(222,852)</u></u>	<u><u>(115,944)</u></u>	<u><u>492,405</u></u>	<u><u>30,001</u></u>	<u><u>1,430,085</u></u>

See accompanying independent auditors' report.