



SCHOLARSHIP AMERICA, INC.

Financial Statements and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

SCHOLARSHIP AMERICA, INC.

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KPMG LLP
4200 Wells Fargo Center
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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, 2011 and 2010, 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, Inc. as of June 30, 2011 and 2010, 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 27, 2011

SCHOLARSHIP AMERICA, INC.

Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 35,167,729	33,699,974
Accounts, interest, and other receivables	2,360,738	2,561,486
Contributions receivable, net (note 3)	590,607	541,213
Prepaid expenses and other assets	251,518	269,573
Total current assets	<u>38,370,592</u>	<u>37,072,246</u>
Contributions receivable, less current portion, net (note 3)	<u>499,286</u>	<u>620,794</u>
Investments (note 4)	<u>134,201,673</u>	<u>136,141,871</u>
Cash surrender value of life insurance	<u>240,351</u>	<u>241,119</u>
Property and equipment:		
Land	329,436	329,436
Building and improvements	4,722,797	4,690,859
Furniture and equipment	3,425,935	3,398,700
	<u>8,478,168</u>	<u>8,418,995</u>
Less accumulated depreciation	<u>5,743,715</u>	<u>5,521,013</u>
Property and equipment, net	<u>2,734,453</u>	<u>2,897,982</u>
Total assets	<u>\$ 176,046,355</u>	<u>176,974,012</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 813,351	441,636
Accrued expenses	597,053	191,857
Current portion of long-term debt (note 6)	131,365	127,512
Scholarships payable	16,841,042	16,788,695
Refundable deposits	20,612,751	21,215,925
Total current liabilities	<u>38,995,562</u>	<u>38,765,625</u>
Long-term debt (note 6)	<u>1,465,574</u>	<u>1,596,938</u>
Total liabilities	<u>40,461,136</u>	<u>40,362,563</u>
Commitments (note 9)		
Net assets:		
Unrestricted:		
Designated for endowment	1,366,748	1,118,637
Undesignated	6,861,557	7,119,166
Total unrestricted	<u>8,228,305</u>	<u>8,237,803</u>
Temporarily restricted (note 8)	112,205,377	114,211,725
Permanently restricted (note 8)	15,151,537	14,161,921
Total net assets	<u>135,585,219</u>	<u>136,611,449</u>
Total liabilities and net assets	<u>\$ 176,046,355</u>	<u>176,974,012</u>

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Activities

Years ended June 30, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Total scholarships raised	\$ 129,736,899	130,769,637
Less scholarships designated by donors for specific beneficiaries	(54,093,276)	(54,812,957)
Scholarship revenue	75,643,623	75,956,680
Program management fees	8,683,123	8,502,394
Investment income (note 4)	440,594	486,564
Contributions	607,315	351,306
Other income	377,486	381,093
Dollars for Scholars®	496,071	502,607
ScholarShop®	20,337	28,925
Revenues and support	86,268,549	86,209,569
Net assets released from restrictions:		
Satisfaction of program restrictions	22,315,190	19,188,759
Total unrestricted revenues and support	108,583,739	105,398,328
Expenses:		
Program services:		
Total scholarship distributions	150,650,795	148,015,779
Less scholarships designated by donors for specific beneficiaries	(54,093,276)	(54,812,957)
Scholarship awards	96,557,519	93,202,822
Scholarship Management Services™	4,819,881	4,067,649
Dollars for Scholars®	1,692,245	1,901,045
ScholarShop®	30,497	88,918
Other programs	708,122	570,900
Supporting services:		
General and administration	3,404,136	3,458,672
Fund-raising	1,380,837	1,533,812
Total expenses	108,593,237	104,823,818
Change in unrestricted net assets	(9,498)	574,510
Changes in temporarily restricted net assets:		
Contributions and project grants	7,787,846	10,194,149
Change in donor restrictions	—	4,291
Investment income (note 4)	12,520,996	13,024,829
Net assets released from restrictions:		
Satisfaction of program restrictions	(22,315,190)	(19,188,759)
Change in temporarily restricted net assets	(2,006,348)	4,034,510
Changes in permanently restricted net assets:		
Endowment contributions	1,989,665	56,425
Change in donor restrictions	(1,000,049)	(4,291)
Change in permanently restricted net assets	989,616	52,134
Change in net assets	(1,026,230)	4,661,154
Net assets:		
Balance at beginning of year	136,611,449	131,950,295
Balance at end of year	\$ 135,585,219	136,611,449

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (1,026,230)	4,661,154
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	238,829	234,640
Unrealized gains on investments	(7,623,071)	(10,072,215)
Realized (gains) losses on sale of investments	(1,650,559)	573,981
Scholarships distributed and designated by donors for specific beneficiaries	(54,093,276)	(54,812,957)
Scholarships raised and designated by donors for specific beneficiaries	54,093,276	54,812,957
Permanently restricted contributions	(1,989,665)	(56,425)
Changes in assets and liabilities:		
Accounts, interest, and other receivables	200,748	114,677
Contributions receivable	72,114	240,803
Prepaid expenses and other assets	18,055	11,910
Cash surrender value of life insurance	768	1,482
Accounts payable	371,715	(371,651)
Scholarships payable	52,347	(697,619)
Accrued expenses	405,196	(213,617)
Refundable deposits	(603,174)	226,892
Net cash used in operating activities	(11,532,927)	(5,345,988)
Cash flows from investing activities:		
Purchase of investments	(14,071,096)	(11,490,226)
Proceeds from sale of investments	25,284,924	18,031,413
Purchase of property and equipment	(75,300)	(106,178)
Net cash provided by investing activities	11,138,528	6,435,009
Cash flows from financing activities:		
Contributions received	1,989,665	56,425
Repayments of long-term debt	(127,511)	(123,803)
Net cash provided by (used in) financing activities	1,862,154	(67,378)
Increase in cash and cash equivalents	1,467,755	1,021,643
Cash and cash equivalents at beginning of year	33,699,974	32,678,331
Cash and cash equivalents at end of year	\$ 35,167,729	33,699,974
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 51,122	54,909

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(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, 2011 and 2010

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, 2011 and 2010

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 restrictions 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 and 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, 2011 and 2010

(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, 2011 and 2010.

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

There was no 403(b) retirement plan in place at June 30, 2010 for Scholarship America employees. Effective October 2010, Scholarship America offered a 403(b) retirement plan to its employees. Employee participation is optional and Scholarship America made no contributions to the plan during the year ended June 30, 2011.

(o) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents; accounts, interest, and other receivables; accounts payable; 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.

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Notes to Financial Statements

June 30, 2011 and 2010

(3) Contributions Receivable

Contributions are to be collected during the following years at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 621,692	569,698
One to five years	251,000	260,000
Greater than five years	450,000	650,000
	<u>1,322,692</u>	<u>1,479,698</u>
Less:		
Discounts for the time value of money	175,436	256,533
Allowance for uncollectible contributions	57,363	61,158
	<u>\$ 1,089,893</u>	<u>1,162,007</u>

(4) Investments and Investment Income

Investments consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash equivalents and certificates of deposit	\$ 8,946,098	9,997,319
U.S. government obligations	18,096,748	17,569,961
Equity mutual funds	39,759,022	35,749,457
Fixed income mutual funds	65,890,028	71,336,816
Corporate bonds and notes	1,509,777	1,488,318
	<u>\$ 134,201,673</u>	<u>136,141,871</u>

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended June 30, 2011 and 2010:

	<u>Interest and dividends</u>	<u>Unrealized gain</u>	<u>Realized gain (loss)</u>	<u>Total</u>
2011:				
Unrestricted	\$ 43,195	396,111	1,288	440,594
Temporarily restricted	3,644,765	7,226,960	1,649,271	12,520,996
2010:				
Unrestricted	\$ 73,085	403,997	9,482	486,564
Temporarily restricted	3,940,074	9,668,218	(583,463)	13,024,829

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(5) Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Codification 820 (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 assets, 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 and U.S. government securities, corporate bonds, and notes: Valued at their quoted market price based on similar instruments held at fiscal year-end.

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

Description	Fair value at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 8,197,813	—	—	8,197,813
Certificates of deposit	—	748,285	—	748,285
Domestic equities:				
Equity mutual funds	39,759,022	—	—	39,759,022
Debt securities:				
Fixed income mutual funds	65,890,028	—	—	65,890,028
U.S. Treasury bonds and notes	—	17,442,385	—	17,442,385
U.S. government securities	—	654,363	—	654,363
Corporate bonds and notes	—	1,509,777	—	1,509,777
	<u>\$ 113,846,863</u>	<u>20,354,810</u>	<u>—</u>	<u>134,201,673</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

Description	Fair value at June 30, 2010			
	Level 1	Level 2	Level 3	Total
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
	\$ 115,385,047	20,756,824	—	136,141,871

There were no transfers between Levels 1 and 2 during the years ended June 30, 2011 and 2010.

(6) Long-Term Debt

A summary of long-term debt as of June 30, 2011 and 2010 is as follows:

	2011	2010
Note payable to The First National Bank of St. Peter with variable interest at 3.1%, 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	\$ 1,596,939	1,724,450
Less current maturities	(131,365)	(127,512)
	\$ 1,465,574	1,596,938

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

2011	\$ 131,365
2012	135,599
2013	139,835
2014	144,204
2015	148,626
Thereafter	897,310
	\$ 1,596,939

(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

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

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.

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, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	1,662,821	15,026,047	16,688,868
Board-designated endowment funds	<u>1,366,748</u>	<u>—</u>	<u>—</u>	<u>1,366,748</u>
Total endowment net assets	<u>\$ 1,366,748</u>	<u>1,662,821</u>	<u>15,026,047</u>	<u>18,055,616</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

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>

(b) Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 938,621	1,014,477	14,033,277	15,986,375
Investment return:				
Investment income	32,016	418,402	—	450,418
Net gain on investments	<u>396,111</u>	<u>639,345</u>	<u>—</u>	<u>1,035,456</u>
Total investment return	428,127	1,057,747	—	1,485,874
Contributions	—	—	1,992,818	1,992,818
Appropriation of endowment assets for expenditure	—	(280,587)	—	(280,587)
Change in donor restrictions	<u>—</u>	<u>(128,816)</u>	<u>(1,000,049)</u>	<u>(1,128,865)</u>
Endowment net assets, June 30, 2011	<u>\$ 1,366,748</u>	<u>1,662,821</u>	<u>15,026,046</u>	<u>18,055,615</u>

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Notes to Financial Statements

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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>

(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. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2011 and \$(180,016) as of June 30, 2010. 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 Index or the Barclays U.S. 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 of trustees 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, 2011 and 2010

(8) Temporarily and Permanently Restricted Net Assets

Donor-restricted temporarily restricted net assets are available at June 30, 2011 and 2010 for the following purposes:

	2011	2010
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consists of:		
Scholarships	\$ 1,662,821	1,014,477
Regions	—	—
	1,662,821	1,014,477
Gifts and other unexpended revenues and support available for:		
Scholarships	108,187,046	109,603,516
Regions	425,877	340,112
Other projects	1,929,633	3,253,620
	\$ 112,205,377	114,211,725

Donor-restricted permanently restricted net asset balances at June 30, 2011 and 2010 and the purposes for which the income can be used are as follows:

	2011	2010
Endowment fund for:		
Scholarships	\$ 12,331,920	11,365,547
Regions	1,704,126	1,677,730
Other projects	990,000	990,000
	15,026,046	14,033,277
Nonendowment funds for scholarships	125,491	128,644
	\$ 15,151,537	14,161,921

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(9) Leases

Rental expense for office space was \$230,698 and \$302,199 for the years ended June 30, 2011 and 2010, respectively. Lease agreements having an original term of more than one year expire on various dates through calendar year 2014. Minimum annual payments under terms of these operating leases are as follows:

Year ending June 30:		
2012	\$	105,325
2013		99,435
2014		97,945
2015		8,203
	\$	<u>310,908</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, 2011 and 2010 are as follows:

	2011		2010	
General and administration	\$ 3,404,136	3.14%	\$ 3,458,672	3.28%
Fund-raising	<u>1,380,837</u>	<u>1.27</u>	<u>1,533,812</u>	<u>1.46</u>
Total	<u>\$ 4,784,973</u>	<u>4.41%</u>	<u>\$ 4,992,484</u>	<u>4.74%</u>
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries	\$ 108,583,739		\$ 105,398,328	

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, Scholarship America evaluated subsequent events after the statement of financial position date of June 30, 2011 through October 27, 2011, which was the date the financial statements were available to be issued. There were no such events or transactions requiring adjustment to or disclosure in Scholarship America's financial statements.

SCHOLARSHIP AMERICA, INC.

Families of Freedom Scholarship Fund

Schedule of Financial Position

June 30, 2011

Assets

Current assets:

Cash and cash equivalents	\$ 289,191
Contributions receivable, net	550,000
	<hr/>
Total current assets	839,191

Contributions receivable, less current portion, net

470,881

Investments

89,057,894

Total assets

\$ 90,367,966

Liabilities and Net Assets

Refundable deposits

\$ 6,503,170

Net assets:

Temporarily restricted

83,864,796

Total liabilities and net assets

\$ 90,367,966

See accompanying independent auditors' report.

Schedule 2

SCHOLARSHIP AMERICA, INC.

Families of Freedom Scholarship Fund

Schedule of Activities

Year ended June 30, 2011

Changes in unrestricted net assets:	
Net assets released from restrictions:	
Satisfaction of program restrictions	\$ 13,961,163
Total unrestricted revenues and support	<u>13,961,163</u>
Expenses:	
Program services:	
Scholarship awards	13,490,472
Scholarship Management Services™	82,113
Supporting services:	
General and administration	387,880
Fund-raising	698
Total expenses	<u>13,961,163</u>
Change in unrestricted net assets	<u>—</u>
Changes in temporarily restricted net assets:	
Contributions for scholarships	1,610,179
Investment income	9,169,880
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(13,961,163)</u>
Change in temporarily restricted net assets	<u>(3,181,104)</u>
Change in net assets	(3,181,104)
Net assets:	
Balance at beginning of year	<u>87,045,900</u>
Balance at end of year	<u>\$ 83,864,796</u>

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Schedule of Functional Expenses
Year ended June 30, 2011

	Program services					Supporting services		Total
	Scholarship awards	Scholarship Management Services™	Dollars for Scholars®	Dreamkeepers®	Families of Freedom NYC	ScholarShop®	General and administrative	
Scholarship awards	\$ 96,557,519	—	—	—	—	—	—	—
Personnel	—	3,437,557	1,170,629	123,546	208,008	12,432	2,323,459	978,884
Meetings and travel	—	67,174	128,309	94,267	1,649	269	198,541	96,483
Printing	—	103,507	13,934	5,802	—	—	22,653	2,684
Professional services	—	290,732	133,084	215,738	41,062	5,015	539,197	131,548
Publicity and promotion	—	48,499	92,453	—	750	886	50,168	53,303
Postage	—	224,141	11,516	646	1,396	758	19,032	5,252
Occupancy	—	149,465	54,925	—	—	1,508	116,028	67,265
Interest	—	42,222	1,985	—	—	496	6,419	—
Insurance	—	60,542	14,642	—	1,658	712	17,889	10,440
Office expenses	—	193,750	48,655	8,233	4,853	1,176	52,691	24,041
Depreciation	—	184,993	11,239	—	—	1,914	39,560	1,123
Miscellaneous	—	17,299	10,874	308	206	5,331	18,499	9,814
Total expenses	\$ 96,557,519	4,819,881	1,692,245	448,540	259,582	30,497	3,404,136	1,380,837
								108,593,237

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Dollars for Scholars® Chartered Regions Financial Report
Year ended June 30, 2011

	New England	Iowa	New York	Northwest	California	Indiana	Illinois	Total
Revenues:								
Grants and contributions	\$ 24,617	36,279	—	106,194	121,407	197,027	143,863	629,387
Grants from Scholarship America	229,477	5,361	219,321	204,239	185,504	—	13,297	857,199
Dues	89,963	31,410	—	34,898	19,595	24,095	18,248	218,209
Interest and gains	238,665	8	4	—	4	82	4	238,767
Total revenues	582,722	73,058	219,325	345,331	326,510	221,204	175,412	1,943,562
Expenses:								
Staff	143,267	90,762	—	101,144	151,686	188,701	—	675,560
Travel	1,369	3,764	—	1,901	12,358	7,416	310	27,118
Program	126,399	22,752	—	11,654	11,238	133,052	194,227	499,322
Office	21,045	11,172	—	7,780	7,442	1,927	(724)	48,642
Total expenses	292,080	128,450	—	122,479	182,724	331,096	193,813	1,250,642
Excess (deficit)	290,642	(55,392)	219,325	222,852	143,786	(109,892)	(18,401)	692,920
Net assets at beginning of year	1,379,366	61,694	(194,585)	(222,852)	(115,944)	492,405	30,001	1,430,085
Net assets at end of year	\$ 1,670,008	6,302	24,740	—	27,842	382,513	11,600	2,123,005

See accompanying independent auditors' report.