



SCHOLARSHIP AMERICA, INC.

Financial Statements and Supplemental Schedules

June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 26, 2012
Minneapolis, Minnesota

SCHOLARSHIP AMERICA, INC.

Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 36,712,318	35,167,729
Accounts, interest, and other receivables	2,607,208	2,360,738
Contributions receivable, net (note 3)	2,242,166	590,607
Prepaid expenses and other assets	237,727	251,518
Total current assets	<u>41,799,419</u>	<u>38,370,592</u>
Contributions receivable, less current portion, net (note 3)	<u>408,282</u>	<u>499,286</u>
Investments (note 4)	<u>142,819,941</u>	<u>134,201,673</u>
Cash surrender value of life insurance	<u>242,038</u>	<u>240,351</u>
Property and equipment:		
Land	329,436	329,436
Building and improvements	4,736,186	4,722,797
Furniture and equipment	3,628,210	3,425,935
	<u>8,693,832</u>	<u>8,478,168</u>
Less accumulated depreciation	<u>5,978,007</u>	<u>5,743,715</u>
Property and equipment, net	<u>2,715,825</u>	<u>2,734,453</u>
Total assets	<u>\$ 187,985,505</u>	<u>176,046,355</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 668,268	813,351
Accrued expenses	206,918	597,053
Current portion of long-term debt (note 6)	135,599	131,365
Scholarships payable	22,883,178	16,841,042
Refundable deposits	27,464,563	20,612,751
Total current liabilities	<u>51,358,526</u>	<u>38,995,562</u>
Long-term debt (note 6)	<u>1,329,975</u>	<u>1,465,574</u>
Total liabilities	<u>52,688,501</u>	<u>40,461,136</u>
Commitments (note 9)		
Net assets:		
Unrestricted:		
Designated for endowment	1,440,720	1,366,748
Undesignated	7,057,704	6,861,557
Total unrestricted	<u>8,498,424</u>	<u>8,228,305</u>
Temporarily restricted (note 8)	109,614,862	112,205,377
Permanently restricted (note 8)	17,183,718	15,151,537
Total net assets	<u>135,297,004</u>	<u>135,585,219</u>
Total liabilities and net assets	<u>\$ 187,985,505</u>	<u>176,046,355</u>

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Activities

Years ended June 30, 2012 and 2011

	2012	2011
Changes in unrestricted net assets:		
Total scholarships raised	\$ 129,687,223	129,736,899
Less scholarships designated by donors for specific beneficiaries	(51,314,718)	(54,093,276)
Scholarship revenue	78,372,505	75,643,623
Program management fees	8,862,737	8,683,123
Investment income (note 4)	83,229	440,594
Contributions	841,958	607,315
Other income	388,199	377,486
Dollars for Scholars®	492,309	496,071
ScholarShop®	6,776	20,337
Revenues and support	89,047,713	86,268,549
Net assets released from restrictions:		
Satisfaction of program restrictions	20,373,539	22,315,190
Total unrestricted revenues and support	109,421,252	108,583,739
Expenses:		
Program services:		
Total scholarship distributions	148,782,888	150,650,795
Less scholarships designated by donors for specific beneficiaries	(51,314,718)	(54,093,276)
Scholarship awards	97,468,170	96,557,519
Scholarship Management Services™	4,783,140	4,819,881
Dollars for Scholars®	1,362,587	1,692,245
ScholarShop®	27,540	30,497
Other programs	668,983	708,122
Supporting services:		
General and administration	3,499,873	3,404,136
Fundraising	1,340,840	1,380,837
Total expenses	109,151,133	108,593,237
Change in unrestricted net assets	270,119	(9,498)
Changes in temporarily restricted net assets:		
Contributions and project grants	10,135,659	7,787,846
Change in donor restrictions	(1,766,712)	—
Investment income (note 4)	9,414,077	12,520,996
Net assets released from restrictions:		
Satisfaction of program restrictions	(20,373,539)	(22,315,190)
Change in temporarily restricted net assets	(2,590,515)	(2,006,348)
Changes in permanently restricted net assets:		
Endowment contributions	2,014,093	1,989,665
Change in donor restrictions	18,088	(1,000,049)
Change in permanently restricted net assets	2,032,181	989,616
Change in net assets	(288,215)	(1,026,230)
Net assets:		
Balance at beginning of year	135,585,219	136,611,449
Balance at end of year	\$ 135,297,004	135,585,219

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (288,215)	(1,026,230)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	234,292	238,829
Unrealized gains on investments	(5,058,152)	(7,623,071)
Realized gains on sale of investments	(1,086,881)	(1,650,559)
Scholarships distributed and designated by donors for specific beneficiaries	(51,314,718)	(54,093,276)
Scholarships raised and designated by donors for specific beneficiaries	51,314,718	54,093,276
Permanently restricted contributions	(2,014,093)	(1,989,665)
Changes in assets and liabilities:		
Accounts, interest, and other receivables	(246,470)	200,748
Contributions receivable	(1,560,555)	72,114
Prepaid expenses and other assets	13,791	18,055
Cash surrender value of life insurance	(1,687)	768
Accounts payable	(145,083)	371,715
Scholarships payable	6,042,136	52,347
Accrued expenses	(390,135)	405,196
Refundable deposits	6,851,812	(603,174)
Net cash provided by (used in) operating activities	2,350,760	(11,532,927)
Cash flows from investing activities:		
Purchase of investments	(25,059,285)	(14,071,096)
Proceeds from sale of investments	22,586,050	25,284,924
Purchase of property and equipment	(215,664)	(75,300)
Net cash provided by (used in) investing activities	(2,688,899)	11,138,528
Cash flows from financing activities:		
Contributions received	2,014,093	1,989,665
Repayments of long-term debt	(131,365)	(127,511)
Net cash provided by financing activities	1,882,728	1,862,154
Increase in cash and cash equivalents	1,544,589	1,467,755
Cash and cash equivalents at beginning of year	35,167,729	33,699,974
Cash and cash equivalents at end of year	\$ 36,712,318	35,167,729
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 47,267	51,122

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011

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.

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Notes to Financial Statements

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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 fundraising 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 fundraising. 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.

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Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011.

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

Effective October 2010, Scholarship America offered a 403(b) retirement plan to its employees. Employee participation is optional. Beginning January 1, 2012, Scholarship America offers a matching contribution of up to 1% of an employee's annual salary, which resulted in Scholarship America's contributions to the plan totaling \$19,351 and \$0 for the years ended June 30, 2012 and 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.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(3) Contributions Receivable

Contributions are to be collected during the following years at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 2,308,174	621,692
One to five years	252,000	251,000
Greater than five years	350,000	450,000
	<u>2,910,174</u>	<u>1,322,692</u>
Less:		
Discounts for the time value of money	120,229	175,436
Allowance for uncollectible contributions	139,497	57,363
	<u>\$ 2,650,448</u>	<u>1,089,893</u>

(4) Investments and Investment Income

Investments consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash equivalents and certificates of deposit	\$ 14,212,016	8,946,098
U.S. government obligations	23,533,535	18,096,748
Equity mutual funds	38,876,369	39,759,022
Fixed income mutual funds	62,056,573	65,890,028
Corporate bonds and notes	4,141,448	1,509,777
	<u>\$ 142,819,941</u>	<u>134,201,673</u>

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended June 30, 2012 and 2011:

	<u>Interest and dividends</u>	<u>Unrealized gain</u>	<u>Realized gain (loss)</u>	<u>Total</u>
2012:				
Unrestricted	\$ 43,526	47,833	(5)	91,354
Temporarily restricted	3,308,747	5,010,319	1,086,886	9,405,952
2011:				
Unrestricted	\$ 43,195	396,111	1,288	440,594
Temporarily restricted	3,644,765	7,226,960	1,649,271	12,520,996

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 14,212,016	—	—	14,212,016
Domestic equities:				
Equity mutual funds	38,876,369	—	—	38,876,369
Debt securities:				
Fixed income mutual funds	62,056,573	—	—	62,056,573
U.S. Treasury bonds and notes	—	21,654,301	—	21,654,301
U.S. government securities	—	1,879,234	—	1,879,234
Corporate bonds and notes	—	4,141,448	—	4,141,448
	\$ 115,144,958	27,674,983	—	142,819,941

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Notes to Financial Statements

June 30, 2012 and 2011

Description	Fair value at June 30, 2011			Total
	Level 1	Level 2	Level 3	
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>

There were no transfers between Levels 1 and 2 during the years ended June 30, 2012 and 2011.

(6) Long-Term Debt

A summary of long-term debt as of June 30, 2012 and 2011 is as follows:

	2012	2011
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	\$ 1,465,574	1,596,939
Less current maturities	(135,599)	(131,365)
	<u>\$ 1,329,975</u>	<u>1,465,574</u>

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

2013	\$ 135,599
2014	139,835
2015	144,204
2016	148,626
2017	153,352
Thereafter	743,958
	<u>\$ 1,465,574</u>

(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, 2012 and 2011

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, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (8,125)	2,193,662	17,058,663	19,244,200
Board-designated endowment funds	<u>1,448,845</u>	<u>—</u>	<u>—</u>	<u>1,448,845</u>
Total endowment net assets	<u>\$ 1,440,720</u>	<u>2,193,662</u>	<u>17,058,663</u>	<u>20,693,045</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

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>

(b) Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 1,366,748	1,662,821	15,026,047	18,055,616
Investment return:				
Investment income	34,264	473,336	—	507,600
Net gain on investments	<u>39,708</u>	<u>574,740</u>	<u>—</u>	<u>614,448</u>
Total investment return	73,972	1,048,076	—	1,122,048
Contributions	—	—	2,014,528	2,014,528
Appropriation of endowment assets for expenditure	—	(472,890)	—	(472,890)
Change in donor restrictions	<u>—</u>	<u>(44,345)</u>	<u>18,088</u>	<u>(26,257)</u>
Endowment net assets, June 30, 2012	<u>\$ 1,440,720</u>	<u>2,193,662</u>	<u>17,058,663</u>	<u>20,693,045</u>

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Notes to Financial Statements

June 30, 2012 and 2011

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>

(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 deficiencies of \$8,125 that are reported in unrestricted net assets as of June 30, 2012 and no deficiencies of this nature reported at June 30, 2011.

(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, 2012 and 2011

(8) Temporarily and Permanently Restricted Net Assets

Donor-restricted temporarily restricted net assets are available at June 30, 2012 and 2011 for the following purposes:

	2012	2011
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA available for scholarships:	\$ 2,193,662	1,662,821
Gifts and other unexpended revenues and support available for:		
Scholarships	104,010,595	108,187,046
Regions	439,766	425,877
Other projects	2,970,839	1,929,633
	\$ 109,614,862	112,205,377

Donor-restricted permanently restricted net asset balances at June 30, 2012 and 2011 and the purposes for which the income can be used are as follows:

	2012	2011
Endowment fund for:		
Scholarships	\$ 14,364,537	12,331,920
Regions	1,704,126	1,704,126
Other projects	990,000	990,000
	17,058,663	15,026,046
Nonendowment funds for scholarships	125,055	125,491
	\$ 17,183,718	15,151,537

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(9) Leases

Rental expense for office space was \$220,337 and \$230,698 for the years ended June 30, 2012 and 2011, 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:		
2013	\$	95,035
2014		97,945
2015		8,203
		201,183
	\$	201,183

(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, 2012 and 2011 are as follows:

	2012		2011	
General and administration	\$ 3,499,873	3.20%	\$ 3,404,136	3.14%
Fundraising	1,340,840	1.22	1,380,837	1.27
Total	\$ 4,840,713	4.42%	\$ 4,784,973	4.41%
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries	\$ 109,421,252		\$ 108,583,739	

Fundraising 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, 2012 through October 26, 2012, 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, 2012

Assets

Current assets:		
Cash and cash equivalents	\$	151,495
Contributions receivable, net		<u>570,000</u>
Total current assets		721,495
Contributions receivable, less current portion, net		408,283
Investments		<u>86,976,864</u>
Total assets	\$	<u><u>88,106,642</u></u>

Liabilities and Net Assets

Refundable deposits	\$	7,930,967
Net assets:		
Temporarily restricted		<u>80,175,675</u>
Total liabilities and net assets	\$	<u><u>88,106,642</u></u>

See accompanying independent auditors' report.

Schedule 2

SCHOLARSHIP AMERICA, INC.

Families of Freedom Scholarship Fund

Schedule of Activities

Year ended June 30, 2012

Changes in unrestricted net assets:	
Net assets released from restrictions:	
Satisfaction of program restrictions	\$ 12,725,826
Total unrestricted revenues and support	<u>12,725,826</u>
Expenses:	
Program services:	
Scholarship awards	12,398,947
Scholarship Management Services™	50,211
Supporting services:	
General and administration	276,007
Fundraising	661
Total expenses	<u>12,725,826</u>
Change in unrestricted net assets	<u>—</u>
Changes in temporarily restricted net assets:	
Contributions for scholarships	2,007,071
Transfer earnings to customer deposit	(768,385)
Investment income	7,798,019
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(12,725,826)</u>
Change in temporarily restricted net assets	<u>(3,689,121)</u>
Change in net assets	(3,689,121)
Net assets:	
Balance at beginning of year	<u>83,864,796</u>
Balance at end of year	<u>\$ 80,175,675</u>

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Schedule of Functional Expenses

Year ended June 30, 2012

	Program services					Supporting services		Total	
	Scholarship awards	Scholarship Management Services™	Dollars for Scholars®	Dreamkeepers®	Families of Freedom NYC	ScholarShop®	General and administrative		Fundraising
Scholarship awards	\$ 97,468,170	—	—	—	—	—	—	—	97,468,170
Personnel	—	3,344,338	939,419	109,502	186,526	—	2,360,679	928,931	7,869,395
Meetings and travel	—	91,235	120,877	85,185	10,557	—	198,044	126,840	632,738
Printing	—	131,682	38,702	4,950	6,030	—	16,639	7,477	205,480
Professional services	—	252,965	75,910	207,108	32,872	—	503,124	161,559	1,233,538
Publicity and promotion	—	62,736	44,672	—	6,508	—	32,364	33,811	180,091
Postage	—	220,073	14,543	350	2,424	—	8,954	2,959	249,303
Occupancy	—	157,157	57,053	—	—	—	124,980	34,524	373,714
Interest	—	40,460	1,513	—	—	—	5,294	—	47,267
Insurance	—	65,489	12,247	—	984	—	16,126	8,854	103,700
Office expenses	—	209,311	43,589	9,514	4,107	—	166,441	23,988	456,950
Depreciation	—	186,067	9,073	—	—	—	38,538	614	234,292
Miscellaneous	—	21,627	4,989	2,366	—	27,540	28,690	11,283	96,495
Total expenses	\$ 97,468,170	4,783,140	1,362,587	418,975	250,008	27,540	3,499,873	1,340,840	109,151,133

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Dollars for Scholars® Chartered Regions Financial Report

Year ended June 30, 2012

	<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	\$ 22,121	17,229	—	6,362	91,375	185,861	20,246	343,194
Grants from Scholarship America	1,849	2,000	—	2,000	1,159	2,000	—	9,008
Dues	85,098	32,593	—	30,395	16,940	29,138	—	194,164
Interest and gains	88,281	1	11	—	12	180	3	88,488
Total revenues	<u>197,349</u>	<u>51,823</u>	<u>11</u>	<u>38,757</u>	<u>109,486</u>	<u>217,179</u>	<u>20,249</u>	<u>634,854</u>
Expenses:								
Staff	82,819	71,195	—	71,017	141,129	165,524	—	531,684
Travel	2,406	2,495	—	321	904	8,624	78	14,828
Program	36,484	14,003	—	7,606	9,570	74,268	41,896	183,827
Office	20,204	6,974	—	7,779	3,498	2,286	306	41,047
Total expenses	<u>141,913</u>	<u>94,667</u>	<u>—</u>	<u>86,723</u>	<u>155,101</u>	<u>250,702</u>	<u>42,280</u>	<u>771,386</u>
Excess (deficit)	55,436	(42,844)	11	(47,966)	(45,615)	(33,523)	(22,031)	(136,532)
Net assets at beginning of year	1,670,008	6,302	24,740	—	27,842	382,513	11,600	2,123,005
Transfer from Scholarship America*	—	36,542	—	47,966	43,944	—	12,032	140,484
Net assets at end of year	<u>\$ 1,725,444</u>	<u>—</u>	<u>24,751</u>	<u>—</u>	<u>26,171</u>	<u>348,990</u>	<u>1,601</u>	<u>2,126,957</u>

*By June 30, 2012, Chartered Regions were closed and any accumulated operating deficits were covered by Scholarship America. The remaining restricted funds will be expended according to donors' terms.

See accompanying independent auditors' report.