

SCHOLARSHIP AMERICA, INC.

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and For the Years Ended December 31, 2015 and 2014

SCHOLARSHIP AMERICA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Scholarship America, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Scholarship America, Inc. ("Scholarship America"), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scholarship America as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in pages 21 through 23 is presented for purposes of additional analysis and is not a required part of the 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 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, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 31, 2016

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2015 and 2014

| ASSETS | 2015 | 2014 |
|---|----------------|----------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 9,092,872 | \$ 22,975,587 |
| Accounts, interest and other receivables, net | 1,849,043 | 2,591,915 |
| Contributions receivable, net | 1,248,517 | 880,008 |
| Prepaid expenses and other assets | 384,626 | 494,728 |
| Total current assets | 12,575,058 | 26,942,238 |
| CONTRIBUTIONS RECEIVABLE , less current portion, net | 1,111,489 | 243,357 |
| INVESTMENTS | 118,862,820 | 139,915,265 |
| CASH SURRENDER VALUE OF LIFE INSURANCE | 252,697 | 250,415 |
| PROPERTY AND EQUIPMENT | | |
| Land | 329,436 | 329,436 |
| Building and improvements | 5,360,026 | 5,345,286 |
| Furniture and equipment | 4,191,800 | 4,076,717 |
| | 9,881,262 | 9,751,439 |
| Less accumulated depreciation | (7,146,887) | (6,725,223) |
| Property and equipment, net | 2,734,375 | 3,026,216 |
| INTANGIBLE ASSETS | | |
| Less accumulated amortization | (499,849) | (296,291) |
| Intangible assets, net | 1,569,213 | 1,772,771 |
| TOTAL ASSETS | \$ 137,105,652 | \$ 172,150,262 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 654,461 | \$ 1,667,861 |
| Accrued and other deferred liabilities | 808,862 | 815,180 |
| Current portion of long-term debt and promissory note | 165,460 | 247,386 |
| Scholarships payable | 9,373,743 | 12,303,597 |
| Refundable deposits | 25,600,793 | 37,247,176 |
| Total Current Liabilities | 36,603,319 | 52,281,200 |
| LONG-TERM DEBT AND PROMISSORY NOTE | 772,285 | 937,789 |
| Total Liabilities | 37,375,604 | 53,218,989 |
| NET ASSETS | | |
| Unrestricted | | |
| Designated for endowment | 302,834 | 302,684 |
| Undesignated | 4,438,662 | 5,361,901 |
| Total unrestricted | 4,741,496 | 5,664,585 |
| Temporarily restricted | | |
| Temporarily restricted | 81,521,770 | 97,315,495 |
| Permanently restricted | 13,466,782 | 15,951,193 |
| Total net assets | 99,730,048 | 118,931,273 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 137,105,652 | \$ 172,150,262 |

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------------|-----------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Total scholarships raised | \$ 164,974,344 | \$ 150,627,975 |
| Less scholarships designated by donors for specific beneficiaries | <u>(69,316,106)</u> | <u>(51,273,051)</u> |
| Scholarship revenue | 95,658,238 | 99,354,924 |
| Program management fees | 11,825,457 | 13,724,844 |
| Investment income | 54,340 | 100,284 |
| Contributions | 1,109,269 | 1,224,177 |
| Other income | 217,040 | 230,906 |
| Dollars for Scholars® | <u>450,923</u> | <u>417,835</u> |
| Revenues and support | 109,315,267 | 115,052,970 |
| Net assets released from restrictions | | |
| Satisfaction of program restrictions | <u>18,209,360</u> | <u>18,213,126</u> |
| Total unrestricted revenues and support | <u>127,524,627</u> | <u>133,266,096</u> |
| EXPENSES | | |
| Program services | | |
| Total scholarship distributions | 181,575,490 | 167,523,026 |
| Less scholarships designated by donors for specific beneficiaries | <u>(69,316,106)</u> | <u>(51,273,051)</u> |
| Scholarship awards | 112,259,384 | 116,249,975 |
| Scholarship Management Services™ | 8,542,822 | 10,045,124 |
| Dollars for Scholars® | 928,328 | 1,118,073 |
| Other programs | 1,219,677 | 1,038,646 |
| Supporting services | | |
| General and administrative | 3,898,335 | 3,941,685 |
| Fundraising | <u>1,599,170</u> | <u>2,132,211</u> |
| Total expenses | <u>128,447,716</u> | <u>134,525,714</u> |
| Change in unrestricted net assets | <u>(923,089)</u> | <u>(1,259,618)</u> |
| Changes in temporarily restricted net assets | | |
| Contributions and project grants | 4,923,837 | 4,731,053 |
| Investment income | (4,325,654) | 4,600,146 |
| Change in donor restrictions | 1,817,452 | 1,398,540 |
| Net assets released from restrictions | | |
| Satisfaction of program restrictions | <u>(18,209,360)</u> | <u>(18,213,126)</u> |
| Change in temporarily restricted net assets | <u>(15,793,725)</u> | <u>(7,483,387)</u> |
| Changes in permanently restricted net assets | | |
| Contributions | 10,219 | 96,139 |
| Change in donor restrictions | <u>(2,494,630)</u> | <u>(1,398,540)</u> |
| Change in permanently restricted net assets | <u>(2,484,411)</u> | <u>(1,302,401)</u> |
| Change in net assets | (19,201,225) | (10,045,406) |
| Net Assets - Beginning of Period | <u>118,931,273</u> | <u>128,976,679</u> |
| NET ASSETS - END OF PERIOD | <u>\$ 99,730,048</u> | <u>\$ 118,931,273</u> |

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (19,201,225) | \$ (10,045,406) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 421,664 | 432,340 |
| Amortization of intangibles | 203,558 | 203,559 |
| Unrealized losses on investments | 5,339,469 | 7,099,802 |
| Realized (gains) losses on sale of investments | 1,583,017 | (9,540,404) |
| Scholarships distributed and designated by donors for specific beneficiaries | (69,316,106) | (51,273,051) |
| Scholarships raised and designated by donors for specific beneficiaries | 69,316,106 | 51,273,051 |
| Permanently restricted contributions | (10,219) | (96,139) |
| Change in: | | |
| Accounts, interest and other receivables | 742,872 | 236,455 |
| Contributions receivable, net | (1,236,641) | 639,845 |
| Prepaid expenses and other assets | 110,102 | (249,835) |
| Cash surrender value of life insurance | (2,282) | (4,662) |
| Accounts payable | (1,013,400) | 711,607 |
| Scholarships payable | (2,929,854) | 4,105,563 |
| Accrued expenses | (6,318) | 520,460 |
| Refundable deposits | (11,646,383) | 5,740,148 |
| Net Cash Flows From Operating Activities | (27,645,640) | (246,667) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (51,431,990) | (113,965,832) |
| Proceeds from sale of investments | 65,561,949 | 103,507,634 |
| Purchase of property and equipment | (129,823) | (778,102) |
| Net Cash Flows From Investing Activities | 14,000,136 | (11,236,300) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions received restricted for endowment | 10,219 | 96,139 |
| Repayments of long-term debt | (162,878) | (160,259) |
| Proceeds from bank line of credit | 2,450,000 | - |
| Repayments of bank line of credit | (2,450,000) | - |
| Repayments of promissory note | (84,552) | (1,044,723) |
| Net Cash Flows From Financing Activities | (237,211) | (1,108,843) |
| Net Change in Cash and Cash Equivalents | (13,882,715) | (12,591,810) |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 22,975,587 | 35,567,397 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 9,092,872 | \$ 22,975,587 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$ 41,005 | \$ 45,896 |

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 do not include assets, liabilities, revenues, or expenses of the individual Dollars for Scholars® affiliates, because these affiliates have independent Boards of Directors and Scholarship America does not have control over these 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.

Basis of Presentation

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

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:

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.

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.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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. Scholarship America maintains cash and cash equivalent accounts, which at times, may exceed federally insured limits. Scholarship America has not experienced any losses from maintaining cash and cash equivalent accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash and cash equivalent accounts.

Accounts Receivable

Accounts receivable are stated at amounts management expects to collect for services and are based on contracted fee schedules. Payment terms are typically net 30 from date of invoice, but may vary in specific cases. An allowance for doubtful accounts is provided based upon a review of outstanding receivables, historical collection information and specific program circumstances. Amounts deemed uncollectible are written off in the period such amounts are determined. Delinquent accounts are not charged a service fee.

Investments

Investments, excluding certificate of deposits, are reported at fair value. Certificate of deposits are reported at cost, which approximates fair value. Investments in alternative investments are recorded at net asset value as a practical expedient to fair value.

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. Scholarship America capitalizes property and equipment additions in excess of \$600. 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 |

Intangible Assets

Acquired intangible assets are the result of purchased customer contracts. These assets are valued at actual purchase price. The intangible assets are amortized over 10.1 years, which is the average historical duration for client relationships in the SMS business line. Amortization expense for each of the years 2016 through 2020 will be \$203,558.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

Contributions

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

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

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.

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.

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.

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 or headcount.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

Estimates

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

Income Tax Status

The Internal Revenue Service has determined that Scholarship America is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Scholarship America is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

Scholarship America follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by Scholarship America for uncertain tax positions as of December 31, 2015 and 2014.

Retirement Plan

Scholarship America offers a 403(b) retirement plan to its employees. Employee participation is optional. Scholarship America's matching contribution for the year ended December 31, 2015 was 3% up until May 29, 2015 when the match was temporarily suspended. The matching contribution was 3% for the full year ended December 31, 2014. Scholarship America's contributions to the plan totaled \$75,024 and \$175,101 for the years ended December 31, 2015 and 2014, respectively.

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Scholarship America will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018. Scholarship America has not yet determined the impact of the adoption of ASU No. 2014-09 on its financial statements.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont.)

In February 2016, FASB issued ASU No 2016-02, *Leases*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the statement of financial position as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. Scholarship America is currently assessing the effect this standard will have on its financial statements.

In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. For non-public entities, ASU 2015-07 is effective for fiscal years beginning after December 31, 2016, with early adoption permitted. The guidance is to be applied retrospectively. Scholarship America is currently assessing the effect this standard will have on its financial statements.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are to be collected during the following periods at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Less than one year | \$ 1,314,228 | \$ 926,324 |
| One to five years | 1,275,000 | 252,500 |
| Greater than five years | - | 50,000 |
| | <u>2,589,228</u> | <u>1,228,824</u> |
| Less: | | |
| Discounts for the time value of money | 105,011 | 46,335 |
| Allowance for uncollectible contributions | <u>124,211</u> | <u>59,124</u> |
| | <u>\$ 2,360,006</u> | <u>\$ 1,123,365</u> |

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted at 5%.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 3 - INVESTMENTS AND INVESTMENT INCOME

Investments consisted of the following at December 31:

| | 2015 | 2014 |
|---|-----------------------|-----------------------|
| Cash equivalents and certificates of deposit | \$ 380,116 | \$ 1,744,872 |
| Cash in-transit | - | 9,709,335 |
| U.S. Treasury bonds and notes | 673,940 | 688,417 |
| U.S. government securities | 4,589,901 | 4,093,833 |
| Equity mutual funds | 28,930,955 | 29,074,103 |
| Fixed income mutual funds | 48,341,041 | 58,988,455 |
| Corporate bonds and notes | 18,625,475 | 20,413,035 |
| Master limited partnership and other mutual funds | 9,723,237 | 15,203,215 |
| Hedge funds | 7,598,155 | - |
| | \$ 118,862,820 | \$ 139,915,265 |

In December 2014, Scholarship America liquidated its holdings in an existing hedge fund as part of a transition to a new fund manager. At December 31, 2014, the proceeds were held in cash in-transit.

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended December 31, 2015 and 2014:

| | Interest and Dividends | Unrealized Gain (Loss) | Realized Gain (Loss) | Total |
|------------------------|---------------------------|---------------------------|-------------------------|-----------------------|
| December 31, 2015 | | | | |
| Unrestricted | \$ 105,131 | \$ (51,999) | \$ 1,208 | \$ 54,340 |
| Temporarily restricted | 2,546,041 | (5,287,470) | (1,584,225) | (4,325,654) |
| Total | <u>\$ 2,651,172</u> | <u>\$ (5,339,469)</u> | <u>\$ (1,583,017)</u> | <u>\$ (4,271,314)</u> |
| December 31, 2014 | | | | |
| Unrestricted | \$ 79,134 | \$ (426,557) | \$ 447,707 | \$ 100,284 |
| Temporarily restricted | 2,180,694 | (6,673,245) | 9,092,697 | 4,600,146 |
| Total | <u>\$ 2,259,828</u> | <u>\$ (7,099,802)</u> | <u>\$ 9,540,404</u> | <u>\$ 4,700,430</u> |

NOTE 4 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

- > Investments in cash equivalents and short-term investments (consisting primarily of money market funds), equity mutual funds, fixed income mutual funds, master limited partnership and other mutual funds for which quoted prices are readily available.

Level 2 - Level 2 assets include:

- > Investments in U.S. Treasury bonds and notes, U.S. government securities, and corporate bonds and notes for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Level 3 assets include:

- > Investments in hedge funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time period. Scholarship America has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31.

There have been no changes in the techniques and inputs used as of December 31, 2015 and 2014.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While Scholarship America believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2015 based upon the three-level hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------------|----------------------|---------------------|-----------------------|
| Cash equivalents | \$ 380,116 | \$ - | \$ - | \$ 380,116 |
| Domestic equities | | | | |
| Equity mutual funds | 28,930,955 | - | - | 28,930,955 |
| Debt securities | | | | |
| Fixed income mutual funds | 48,341,041 | - | - | 48,341,041 |
| U.S. Treasury bonds and notes | - | 673,940 | - | 673,940 |
| U.S. government securities | - | 4,589,901 | - | 4,589,901 |
| Corporate bonds and notes | - | 18,625,475 | - | 18,625,475 |
| Master limited partnership and other mutual funds | 9,723,237 | - | - | 9,723,237 |
| Hedge Funds | - | - | 7,598,155 | 7,598,155 |
| Total investments at fair value | <u>87,375,349</u> | <u>23,889,316</u> | <u>7,598,155</u> | <u>118,862,820</u> |
| Total investments | <u>\$ 87,375,349</u> | <u>\$ 23,889,316</u> | <u>\$ 7,598,155</u> | <u>\$ 118,862,820</u> |

The following table presents information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2014 based upon the three-level hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-----------------------|----------------------|----------------|-----------------------|
| Cash equivalents | \$ 1,744,872 | \$ - | \$ - | \$ 1,744,872 |
| Domestic equities | | | | |
| Equity mutual funds | 29,074,103 | - | - | 29,074,103 |
| Debt securities | | | | |
| Fixed income mutual funds | 58,988,455 | - | - | 58,988,455 |
| U.S. Treasury bonds and notes | - | 688,417 | - | 688,417 |
| U.S. government securities | - | 4,093,833 | - | 4,093,833 |
| Corporate bonds and notes | - | 20,413,035 | - | 20,413,035 |
| Master limited partnership and other mutual funds | 15,203,215 | - | - | 15,203,215 |
| Total investments at fair value | <u>105,010,645</u> | <u>25,195,285</u> | <u>-</u> | <u>130,205,930</u> |
| Cash in-transit | - | - | - | 9,709,335 |
| Total investments | <u>\$ 105,010,645</u> | <u>\$ 25,195,285</u> | <u>\$ -</u> | <u>\$ 139,915,265</u> |

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2015:

| | Balance December 31, 2014 | Net realized and unrealized gains/(losses) | Purchases | Sales | Balance December 31, 2015 |
|-------------|---------------------------------|--|--------------|-------|---------------------------------|
| Hedge funds | \$ - | \$ (111,845) | \$ 7,710,000 | \$ - | \$ 7,598,155 |

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at December 31, 2015. \$ (111,845)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

| | Balance December 31, 2013 | Net realized and unrealized gains | Purchases | Sales | Balance December 31, 2014 |
|-------------|---------------------------------|---|-----------|--------------|---------------------------------|
| Hedge funds | \$ 9,166,108 | \$ 543,227 | \$ - | \$ 9,709,335 | \$ - |

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at December 31, 2014. \$ -

Scholarship America uses the net asset value ("NAV") as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value as of December 31, 2015:

| Investment Type | Unfunded Commitments | Fair Value | Redemption Frequency | Redemption Notice Period | Remaining Life (Years) |
|-----------------|-------------------------|------------|-------------------------|-----------------------------|------------------------------|
|-----------------|-------------------------|------------|-------------------------|-----------------------------|------------------------------|

Alternative Investments (a)

| | | | | | |
|--|---|--------------|-----|-----|-----|
| Grosvenor Institutional Partners, L.P. | - | \$ 7,598,155 | (b) | (b) | N/A |
|--|---|--------------|-----|-----|-----|

(a) Grosvenor Institutional Partners, L.P. is a multi-strategy fund of funds which allocates assets to a diverse group of third-party investment managers that employ a range of "alternative" strategies. The fund's investment objectives are to generate a superior and risk-adjusted rate of return with low volatility and to preserve capital during challenging market environments. Both quantitative and qualitative analysis of investment managers and their strategies are used to select the specific underlying investment firms.

(b) A Limited Partner may withdraw, as of the end of any calendar quarter, all or any portion of their account by giving at least 70 days prior written notice. If a Partner withdraws less than substantially all of their balance, the withdrawal will be distributed within 60 days. If a Partner withdraws all or substantially all of their balance, a distribution of 90% of the amount will be made within 60 days with the remainder being distributed promptly after the completion of the fiscal year audit.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 5 - LINE OF CREDIT AGREEMENT

In May 2015, Scholarship America obtained a \$1,750,000 line of credit financing agreement with First National Bank Minnesota. The line bears interest at the bank's index rate plus 1.25% with a floor of 4.5%. At December 31, 2015 the interest rate was 4.75%. Borrowings on the line of credit are secured by assets of Scholarship America including equipment and accounts receivable. The line of credit matures on June 16, 2016 and it is management's intention to renew the facility. At December 31, 2015, there were no borrowings under this agreement.

NOTE 6 - LONG-TERM DEBT AND PROMISSORY NOTE

A summary of long-term debt and promissory note as of December 31 is as follows:

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Note payable to First National Bank Minnesota with variable interest at 1.62% at December 31, 2015 and 2014, and payable in semiannual installments through September 2028. Such payments are secured by a mortgage and security interest granted to the creditor by Scholarship America. The variable interest rate is equal to the yield on five-year U.S. Treasury obligations as of September 1, 2013, resetting every 5 years thereafter. | \$ 937,745 | \$ 1,100,623 |
| Promissory note payable to ACT, Inc., with monthly installments of interest (4.0% fixed rate) and principal through January 2015. | <u>-</u> | <u>84,552</u> |
| Total long-term debt and promissory note | 937,745 | 1,185,175 |
| Less current maturities | <u>(165,460)</u> | <u>(247,386)</u> |
| Balance at December 31 | <u>\$ 772,285</u> | <u>\$ 937,789</u> |

Aggregate annual maturities of long-term debt at December 31, 2015 are as follows:

| | |
|------------|-------------------|
| 2016 | 165,460 |
| 2017 | 168,190 |
| 2018 | 170,910 |
| 2019 | 173,690 |
| 2020 | 176,507 |
| Thereafter | <u>82,988</u> |
| | <u>\$ 937,745</u> |

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS

Scholarship America's endowment consists of approximately 35 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. As required by U.S. generally accepted accounting principles, 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 (1) the original value of the initial gift donated to the permanent endowment; (2) the original value of subsequent gifts donated to the permanent endowment fund; and (3) any earnings and gains/losses required by the donor to be added to the original value of the permanent endowment fund. The remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the organization and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policy of the organization

Endowment net asset composition by type of fund consists of the following as of December 31, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|---------------------------|---------------------------|---------------|
| Donor-restricted endowment funds | \$ (51,999) | \$ 1,943,523 | \$ 13,307,058 | \$ 15,198,582 |
| Board-designated endowment funds | 302,834 | - | - | 302,834 |
| | \$ 250,835 | \$ 1,943,523 | \$ 13,307,058 | \$ 15,501,416 |

Endowment net asset composition by type of fund consists of the following as of December 31, 2014:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|--------------|---------------------------|---------------------------|---------------|
| Donor-restricted endowment funds | \$ - | \$ 2,895,657 | \$ 15,794,943 | \$ 18,690,600 |
| Board-designated endowment funds | 302,684 | - | - | 302,684 |
| | \$ 302,684 | \$ 2,895,657 | \$ 15,794,943 | \$ 18,993,284 |

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS (cont.)

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|---------------|
| Endowment net assets, January 1, 2015 | \$ 302,684 | \$ 2,895,657 | \$ 15,794,943 | \$ 18,993,284 |
| Investment return | | | | |
| Investment income | 150 | 426,989 | - | 427,139 |
| Net gain (loss) on investments | (51,999) | (674,788) | - | (726,787) |
| Total investment return | (51,849) | (247,799) | - | (299,648) |
| Contributions | - | - | 6,745 | 6,745 |
| Appropriation of endowment assets - satisfaction of program restrictions | - | (603,842) | - | (603,842) |
| Appropriation of endowment assets - spending policy | - | (77,740) | - | (77,740) |
| Change in donor restrictions ⁽¹⁾ | - | (22,753) | (2,494,630) | (2,517,383) |
| Endowment net assets, December 31, 2015 | \$ 250,835 | \$ 1,943,523 | \$ 13,307,058 | \$ 15,501,416 |

⁽¹⁾ During the year ended December 31, 2015, Scholarship America was notified of changes in certain donor restrictions which resulted in a decrease of the permanently restricted endowment assets of \$2,494,630. The change in donor restrictions increased temporarily restricted net assets restricted for scholarships by \$1,826,630. The remaining \$668,000 was transferred at the donor's request to another 501(c)(3) organization.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS (cont.)

Changes in endowment net assets for the year ended December 31, 2014 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|---------------|
| Endowment net assets, January 1, 2014 | \$ 1,871,585 | \$ 2,980,795 | \$ 17,102,612 | \$ 21,954,992 |
| Investment return | | | | |
| Investment income | 10,578 | 407,556 | - | 418,134 |
| Net gain on investments | 20,521 | 341,124 | - | 361,645 |
| Total investment return | 31,099 | 748,680 | - | 779,779 |
| Contributions | - | - | 90,871 | 90,871 |
| Appropriation of endowment assets - operations | (1,600,000) | - | - | (1,600,000) |
| Appropriation of endowment assets - satisfaction of program restrictions | - | (747,168) | - | (747,168) |
| Appropriation of endowment assets - spending policy | - | (86,650) | - | (86,650) |
| Change in donor restrictions ⁽²⁾ | - | - | (1,398,540) | (1,398,540) |
| Endowment net assets, December 31, 2014 | \$ 302,684 | \$ 2,895,657 | \$ 15,794,943 | \$ 18,993,284 |

⁽²⁾ During the year ended December 31, 2014, Scholarship America was notified of changes in certain donor restrictions which resulted in a decrease of the permanently restricted endowment assets of \$1,398,540. The change in donor restrictions increased temporarily restricted net assets restricted for scholarships.

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 \$51,999 and \$0 that are reported in unrestricted net assets as of December 31, 2015 and 2014, respectively.

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 the conservative portfolio). Fund performance is expected to at least equal the target rates of return modeled for each portfolio. 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.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Scholarship America relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Scholarship America targets a diversified asset allocation including asset classes such as public equities, fixed income and alternative assets in order to achieve its long-term return objectives within prudent risk constraints.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 7 - ENDOWMENT FUNDS (cont.)

Spending Policy and How Investment Objectives Relate to Spending Policy

The board-designated endowment is currently invested in money market funds. To date, all earnings have been returned to the endowment.

A separately managed board-designated endowment, previously established for the Northeast region is invested in a balanced indexed portfolio. The board of trustees allows 5% of a 12-quarter moving average to be used for operations, as needed. During the years ended December 31, 2015 and 2014, \$77,740 and \$86,650 was released for operations, respectively.

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Donor-restricted temporarily restricted net assets are available at December 31 for the following purposes:

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| The portion of unexpended investment return generated from donor restricted endowment funds subject to UPMIFA available for scholarships | \$ 1,943,523 | \$ 2,895,657 |
| Gifts and other unexpended revenues and support available for: | | |
| Scholarships | 79,001,991 | 92,928,845 |
| Regions | 126,537 | 394,620 |
| Other projects | <u>449,719</u> | <u>1,096,373</u> |
| | <u>\$ 81,521,770</u> | <u>\$ 97,315,495</u> |

Donor-restricted permanently restricted net asset balances at December 31 and the purposes for which the income can be used are as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|----------------------|----------------------|
| Endowment fund for: | | |
| Scholarships | \$ 10,778,539 | \$ 13,287,042 |
| Regions | 1,538,519 | 1,517,901 |
| Other projects | <u>990,000</u> | <u>990,000</u> |
| | 13,307,058 | 15,794,943 |
| Non endowment funds for scholarships | <u>159,724</u> | <u>156,250</u> |
| | <u>\$ 13,466,782</u> | <u>\$ 15,951,193</u> |

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2015 and 2014

NOTE 9 - LEASES

Rental expense for office space was \$301,081 and \$240,998 for the years ended December 31, 2015 and 2014, respectively. Lease agreements having an original term of more than one year expire on various dates through calendar year 2024. Minimum annual payments under terms of these operating leases are as follows:

| | | |
|--------------------------|--|---------------------|
| Year ending December 31: | | |
| 2016 | | \$ 193,111 |
| 2017 | | 140,417 |
| 2018 | | 142,916 |
| 2019 | | 145,415 |
| 2020 | | 147,914 |
| 2021 and thereafter | | <u>656,388</u> |
| | | <u>\$ 1,426,162</u> |

NOTE 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 December 31, 2015 and 2014 are as follows:

| | <u>2015</u> | | <u>2014</u> | |
|---|-----------------------|--------------|-----------------------|--------------|
| General and administration | \$ 3,898,335 | 3.06% | \$ 3,941,685 | 2.96% |
| Fundraising | <u>1,599,170</u> | <u>1.25%</u> | <u>2,132,211</u> | <u>1.60%</u> |
| Total | <u>\$ 5,497,505</u> | <u>4.31%</u> | <u>\$ 6,073,896</u> | <u>4.56%</u> |
| Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries | <u>\$ 127,524,627</u> | | <u>\$ 133,266,096</u> | |

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

NOTE 11 - SUBSEQUENT EVENTS

Scholarship America has evaluated subsequent events through May 31, 2016, which is the date that the financial statements were approved and available to be issued.

SCHOLARSHIP AMERICA, INC.FAMILIES OF FREEDOM SCHOLARSHIP FUND
SCHEDULE OF FINANCIAL POSITION
As of December 31, 2015

| ASSETS | |
|---|----------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 271,758 |
| Contributions receivable, net | <u>617,500</u> |
| | <u>889,258</u> |
| CONTRIBUTIONS RECEIVABLE , less current portion, net | 205,650 |
| INVESTMENTS | <u>59,038,339</u> |
| TOTAL ASSETS | <u>\$ 60,133,247</u> |
| LIABILITIES AND NET ASSETS | |
| REFUNDABLE DEPOSITS | \$ 6,803,116 |
| NET ASSETS | |
| Temporarily restricted | <u>53,330,131</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 60,133,247</u> |

SCHOLARSHIP AMERICA, INC.

FAMILIES OF FREEDOM SCHOLARSHIP FUND
 SCHEDULE OF ACTIVITIES
 For the Year Ended December 31, 2015

CHANGES IN UNRESTRICTED NET ASSETS

| | |
|---|-------------------|
| Net assets released from restrictions | |
| Satisfaction of program restrictions | \$ 12,943,033 |
| Total unrestricted revenues and support | <u>12,943,033</u> |

EXPENSES

| | |
|----------------------------------|-------------------|
| Program services: | |
| Scholarship awards | 12,539,520 |
| Scholarship Management Services™ | 58,014 |
| Supporting services: | |
| General and administrative | 345,290 |
| Fundraising | <u>209</u> |
| Total expenses | <u>12,943,033</u> |

Change in unrestricted net assets -

Changes in temporarily restricted net assets

| | |
|---|---------------------|
| Contributions for scholarships | 565,240 |
| Investment income (loss) | (3,776,160) |
| Net assets released from restrictions | |
| Satisfaction of program restrictions | <u>(12,943,033)</u> |
| Change in temporarily restricted net assets | <u>(16,153,953)</u> |

Change in net assets (16,153,953)

Net Assets - Beginning of Period 69,484,084

NET ASSETS - END OF PERIOD \$ 53,330,131

SCHOLARSHIP AMERICA, INC.

SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

| | Program Services | | | | | Support Services | | Total | |
|-------------------------------|--------------------|----------------------------------|-----------------------|---------------|------------------------|------------------|------------------------|--------------|----------------|
| | Scholarship Awards | Scholarship Management Services™ | Dollars for Scholars® | Dreamkeepers® | Families of Freedom NY | Other | Management and General | | Fundraising |
| Scholarship awards | \$ 112,259,384 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 112,259,384 |
| Personnel costs | - | 4,819,660 | 564,318 | 241,309 | 214,431 | 184,341 | 2,736,514 | 1,001,659 | 9,762,232 |
| Meetings and travel | - | 156,389 | 27,211 | 96,595 | 12,896 | 28,262 | 143,885 | 146,109 | 611,347 |
| Printing | - | 216,749 | 5,907 | 14,734 | 29 | 4,471 | 7,442 | 12,892 | 262,224 |
| Professional services | - | 1,451,115 | 32,066 | 184,338 | 14,772 | 57,429 | 616,809 | 197,166 | 2,553,695 |
| Publicity and promotion | - | 218,451 | 225,068 | 14,665 | 9,044 | 1,077 | 48,176 | 38,769 | 555,250 |
| Postage | - | 169,788 | 3,778 | 841 | 674 | 988 | 5,823 | 2,866 | 184,758 |
| Occupancy | - | 239,941 | 16,214 | - | - | 69,509 | 97,479 | 57,787 | 480,930 |
| Interest | - | 55,043 | 3,945 | - | - | 1,418 | 36,504 | 5,700 | 102,610 |
| Insurance | - | 96,597 | 12,996 | - | 3,145 | 3,810 | 24,504 | 13,903 | 154,955 |
| Office expenses | - | 224,816 | 17,419 | 1,152 | 5,361 | 18,025 | 55,234 | 29,624 | 351,631 |
| Depreciation and amortization | - | 468,570 | 15,365 | - | - | 24,905 | 91,068 | 40,114 | 640,022 |
| Miscellaneous | - | 425,703 | 4,041 | 18 | 162 | 11,276 | 34,897 | 52,581 | 528,678 |
| Total Expenses | \$ 112,259,384 | \$ 8,542,822 | \$ 928,328 | \$ 553,652 | \$ 260,514 | \$ 405,511 | \$ 3,898,335 | \$ 1,599,170 | \$ 128,447,716 |