



SCHOLARSHIP AMERICA, INC.

Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(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.:

We have audited the accompanying financial statements of Scholarship America, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, 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 U.S. generally accepted accounting principles; 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 audit 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, Inc. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

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 3 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 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

Minneapolis, Minnesota
October 25, 2013

SCHOLARSHIP AMERICA, INC.

Statements of Financial Position

June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 27,509,871	36,712,318
Accounts, interest, and other receivables	2,761,546	2,607,208
Contributions receivable, net (note 3)	1,941,584	2,242,166
Prepaid expenses and other assets	199,259	237,727
Total current assets	<u>32,412,260</u>	<u>41,799,419</u>
Contributions receivable, less current portion, net (note 3)	<u>313,478</u>	<u>408,282</u>
Investments (note 4)	<u>153,338,644</u>	<u>142,819,941</u>
Cash surrender value of life insurance	<u>238,300</u>	<u>242,038</u>
Property and equipment:		
Land	329,436	329,436
Building and improvements	4,792,478	4,736,186
Furniture and equipment	3,630,648	3,628,210
	<u>8,752,562</u>	<u>8,693,832</u>
Less accumulated depreciation	<u>6,146,626</u>	<u>5,978,007</u>
Property and equipment, net	<u>2,605,936</u>	<u>2,715,825</u>
Total assets	<u>\$ 188,908,618</u>	<u>187,985,505</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 617,847	668,268
Accrued expenses	219,293	206,918
Current portion of long-term debt (note 6)	139,835	135,599
Scholarships payable	22,725,740	22,883,178
Refundable deposits	25,813,624	27,464,563
Total current liabilities	<u>49,516,339</u>	<u>51,358,526</u>
Long-term debt (note 6)	<u>1,190,163</u>	<u>1,329,975</u>
Total liabilities	<u>50,706,502</u>	<u>52,688,501</u>
Commitments (note 9)		
Net assets:		
Unrestricted:		
Designated for endowment	1,662,851	1,440,720
Undesignated	6,507,882	7,057,704
Total unrestricted	<u>8,170,733</u>	<u>8,498,424</u>
Temporarily restricted (note 8)	113,400,570	109,614,862
Permanently restricted (note 8)	16,630,813	17,183,718
Total net assets	<u>138,202,116</u>	<u>135,297,004</u>
Total liabilities and net assets	<u>\$ 188,908,618</u>	<u>187,985,505</u>

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Activities

Years ended June 30, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Total scholarships raised	\$ 133,195,133	129,687,223
Less scholarships designated by donors for specific beneficiaries	(51,904,549)	(51,314,718)
Scholarship revenue	81,290,584	78,372,505
Program management fees	8,867,837	8,862,737
Investment income (note 4)	295,621	83,229
Contributions	1,029,744	841,958
Other income	239,777	394,975
Dollars for Scholars®	413,245	492,309
Revenues and support	92,136,808	89,047,713
Net assets released from restrictions:		
Satisfaction of program restrictions	19,251,213	20,373,539
Total unrestricted revenues and support	111,388,021	109,421,252
Expenses:		
Program services:		
Total scholarship distributions	151,319,599	148,782,888
Less scholarships designated by donors for specific beneficiaries	(51,904,549)	(51,314,718)
Scholarship awards	99,415,050	97,468,170
Scholarship Management Services™	5,106,839	4,783,140
Dollars for Scholars®	1,384,618	1,362,587
Other programs	626,080	696,523
Supporting services:		
General and administrative	3,658,952	3,499,873
Fundraising	1,524,174	1,340,840
Total expenses	111,715,713	109,151,133
Change in unrestricted net assets	(327,692)	270,119
Changes in temporarily restricted net assets:		
Contributions and project grants	17,453,956	10,135,659
Change in donor restrictions	235,879	(1,766,712)
Investment income (note 4)	5,347,087	9,414,077
Net assets released from restrictions:		
Satisfaction of program restrictions	(19,251,213)	(20,373,539)
Change in temporarily restricted net assets	3,785,709	(2,590,515)
Changes in permanently restricted net assets:		
Endowment contributions	62,340	2,014,093
Change in donor restrictions	(615,245)	18,088
Change in permanently restricted net assets	(552,905)	2,032,181
Change in net assets	2,905,112	(288,215)
Net assets:		
Balance at beginning of year	135,297,004	135,585,219
Balance at end of year	\$ 138,202,116	135,297,004

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 2,905,112	(288,215)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	168,619	234,292
Unrealized gains on investments	(465,776)	(5,058,152)
Realized gains on sale of investments	(2,286,686)	(1,086,881)
Scholarships distributed and designated by donors for specific beneficiaries	(51,904,549)	(51,314,718)
Scholarships raised and designated by donors for specific beneficiaries	51,904,549	51,314,718
Permanently restricted contributions	(62,340)	(2,014,093)
Changes in assets and liabilities:		
Accounts, interest, and other receivables	(154,338)	(246,470)
Contributions receivable	395,386	(1,560,555)
Prepaid expenses and other assets	38,468	13,791
Cash surrender value of life insurance	3,738	(1,687)
Accounts payable	(50,421)	(145,083)
Scholarships payable	(157,438)	6,042,136
Accrued expenses	12,375	(390,135)
Refundable deposits	(1,650,939)	6,851,812
Net cash (used in) provided by operating activities	(1,304,240)	2,350,760
Cash flows from investing activities:		
Purchase of investments	(39,249,141)	(25,059,285)
Proceeds from sale of investments	31,482,900	22,586,050
Purchase of property and equipment	(58,730)	(215,664)
Net cash used in investing activities	(7,824,971)	(2,688,899)
Cash flows from financing activities:		
Contributions received	62,340	2,014,093
Repayments of long-term debt	(135,576)	(131,365)
Net cash (used in) provided by financing activities	(73,236)	1,882,728
(Decrease) increase in cash and cash equivalents	(9,202,447)	1,544,589
Cash and cash equivalents at beginning of year	36,712,318	35,167,729
Cash and cash equivalents at end of year	\$ 27,509,871	36,712,318
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 44,424	47,267

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(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 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, 2013 and 2012

Permanently Restricted Net Assets

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

(b) Accounting for Scholarships

Scholarship programs where the beneficiary has been specified by the donor or the determination of the beneficiary is under the control of another third party are treated as agency transactions and are not reported as scholarship revenues or scholarship distribution expenses in the statements of activities unless Scholarship America has variance power with respect to the determination of the beneficiary. Variance power is the unilateral ability to redirect the use of the transferred assets to another beneficiary. Recognizing that designated scholarships (agency transactions) are a significant element of activities, they are included in scholarships raised and deducted from that amount to calculate scholarship revenue.

(c) Cash and Cash Equivalents

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

(d) Investments

Investments, excluding certificate of deposits, are reported at fair value as set forth in note 5. Certificate of deposits are reported at cost, which approximates fair value.

(e) Property and Equipment

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

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

(f) Contributed Services

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

(g) Contributions

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

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012

(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, 2013 and 2012.

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 \$65,497 and \$19,351 for the years ended June 30, 2013 and 2012, respectively.

(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, 2013 and 2012

(3) Contributions Receivable

Contributions are to be collected during the following years at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 2,043,773	2,308,174
One to five years	257,500	252,000
Greater than five years	<u>150,000</u>	<u>350,000</u>
	2,451,273	2,910,174
Less:		
Discounts for the time value of money	77,524	120,229
Allowance for uncollectible contributions	<u>118,687</u>	<u>139,497</u>
	<u>\$ 2,255,062</u>	<u>2,650,448</u>

(4) Investments and Investment Income

Investments consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash equivalents and certificates of deposit	\$ 73,264	14,212,016
U.S. government obligations	24,112,781	23,533,535
Equity mutual funds	43,598,258	38,876,369
Fixed income mutual funds	65,503,072	62,056,573
Corporate bonds and notes	<u>20,051,269</u>	<u>4,141,448</u>
	<u>\$ 153,338,644</u>	<u>142,819,941</u>

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended June 30, 2013 and 2012:

	<u>Interest and dividends</u>	<u>Unrealized gain</u>	<u>Realized gain (loss)</u>	<u>Total</u>
2013:				
Unrestricted	\$ 109,618	177,564	8,439	295,621
Temporarily restricted	2,780,628	288,212	2,278,247	5,347,087
2012:				
Unrestricted	43,526	47,833	(5)	91,354
Temporarily restricted	3,308,747	5,010,319	1,086,886	9,405,952

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(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, and 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, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 73,264	—	—	73,264
Domestic equities:				
Equity mutual funds	43,598,258	—	—	43,598,258
Debt securities:				
Fixed income mutual funds	65,503,072	—	—	65,503,072
U.S. Treasury bonds and notes	—	20,578,427	—	20,578,427
U.S. government securities	—	3,534,354	—	3,534,354
Corporate bonds and notes	—	20,051,269	—	20,051,269
	<u>\$ 109,174,594</u>	<u>44,164,050</u>	<u>—</u>	<u>153,338,644</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

Description	Fair value at June 30, 2013			Total
	Level 1	Level 2	Level 3	
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
	<u>\$ 115,144,958</u>	<u>27,674,983</u>	<u>—</u>	<u>142,819,941</u>

There were no transfers between Levels 1, 2, and 3 during the years ended June 30, 2013 and 2012.

(6) Long-Term Debt

A summary of long-term debt as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
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	\$ 1,329,998	1,465,574
Less current maturities	(139,835)	(135,599)
	<u>\$ 1,190,163</u>	<u>1,329,975</u>

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

2014	\$ 139,835
2015	144,204
2016	148,626
2017	153,352
2018	158,142
Thereafter	585,839
	<u>\$ 1,329,998</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, 2013 and 2012

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, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	2,230,619	16,487,373	18,717,992
Board-designated endowment funds	<u>1,662,851</u>	<u>—</u>	<u>—</u>	<u>1,662,851</u>
Total endowment net assets	<u>\$ 1,662,851</u>	<u>2,230,619</u>	<u>16,487,373</u>	<u>20,380,843</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

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>

(b) Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 1,440,720	2,193,662	17,058,663	20,693,045
Investment return:				
Investment income	33,789	478,315	—	512,104
Net gain on investments	<u>188,342</u>	<u>301,314</u>	<u>—</u>	<u>489,656</u>
Total investment return	222,131	779,629	—	1,001,760
Contributions	—	—	43,955	43,955
Appropriation of endowment assets for expenditure	—	(616,554)	—	(616,554)
Change in donor restrictions	<u>—</u>	<u>(126,118)</u>	<u>(615,245)</u>	<u>(741,363)</u>
Endowment net assets, June 30, 2013	<u>\$ 1,662,851</u>	<u>2,230,619</u>	<u>16,487,373</u>	<u>20,380,843</u>

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

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, 2012	\$ 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	39,708	574,740	—	614,448
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	—	(44,345)	18,088	(26,257)
Endowment net assets, June 30, 2013	\$ <u>1,440,720</u>	<u>2,193,662</u>	<u>17,058,663</u>	<u>20,693,045</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 \$0 and \$8,125 that are reported in unrestricted net assets as of June 30, 2013 and 2012, respectively.

(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. 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 mix of equity and bond mutual fund investments. The board of trustees allows 5% of a 12-quarter moving average to be used for operations, as needed. In 2013, \$186,000 was released for operations and in 2012, \$0 was released.

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(8) Temporarily and Permanently Restricted Net Assets

Donor-restricted temporarily restricted net assets are available at June 30, 2013 and 2012 for the following purposes:

	2013	2012
The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA available for scholarships	\$ 2,230,619	2,193,662
Gifts and other unexpended revenues and support available for:		
Scholarships	108,100,910	104,010,595
Regions	679,103	439,766
Other projects	2,389,938	2,970,839
	\$ 113,400,570	109,614,862

Donor-restricted permanently restricted net asset balances at June 30, 2013 and 2012 and the purposes for which the income can be used are as follows:

	2013	2012
Endowment fund for:		
Scholarships	\$ 14,122,912	14,364,537
Regions	1,517,901	1,704,126
Other projects	990,000	990,000
	16,630,813	17,058,663
Nonendowment funds for scholarships	—	125,055
	\$ 16,630,813	17,183,718

(9) Leases

Rental expense for office space was \$205,257 and \$220,337 for the years ended June 30, 2013 and 2012, 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:	
2014	\$ 107,525
2015	9,799
2016	—
	\$ 117,324

SCHOLARSHIP AMERICA, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(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, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>	
General and administration	\$ 3,658,952	3.28%	\$ 3,499,873	3.20%
Fundraising	<u>1,524,174</u>	<u>1.37</u>	<u>1,340,840</u>	<u>1.22</u>
Total	<u>\$ 5,183,126</u>	<u>4.65%</u>	<u>\$ 4,840,713</u>	<u>4.42%</u>
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries	\$ 111,388,021		109,421,252	

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, 2013 through October 25, 2013, which was the date the financial statements were available to be issued. One such event occurred that warrants disclosure.

On July 16, 2013, Scholarship America completed the acquisition of certain assets of the ACT SRS Division. This acquisition of customer accounts will be integrated into the Scholarship Management Services (SMS) business line for Scholarship America. Assets acquired primarily consist of client relationships for which scholarship programs are managed.

SCHOLARSHIP AMERICA, INC.
 Families of Freedom Scholarship Fund
 Schedule of Financial Position
 June 30, 2013

Assets

Current assets:		
Cash and cash equivalents	\$	188,850
Contributions receivable, net		<u>522,500</u>
Total current assets		711,350
Contributions receivable, less current portion, net		354,510
Investments		<u>92,290,834</u>
Total assets	\$	<u><u>93,356,694</u></u>

Liabilities and Net Assets

Refundable deposits	\$	7,781,367
Net assets:		
Temporarily restricted		<u>85,575,327</u>
Total liabilities and net assets	\$	<u><u>93,356,694</u></u>

See accompanying independent auditors' report.

Schedule 2

SCHOLARSHIP AMERICA, INC.

Families of Freedom Scholarship Fund

Schedule of Activities

Year ended June 30, 2013

Changes in unrestricted net assets:	
Net assets released from restrictions:	
Satisfaction of program restrictions	\$ 11,115,914
Total unrestricted revenues and support	<u>11,115,914</u>
Expenses:	
Program services:	
Scholarship awards	10,753,844
Scholarship Management Services™	60,906
Supporting services:	
General and administration	300,969
Fundraising	<u>195</u>
Total expenses	<u>11,115,914</u>
Change in unrestricted net assets	<u>—</u>
Changes in temporarily restricted net assets:	
Contributions for scholarships	12,776,158
Investment income	3,739,408
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(11,115,914)</u>
Change in temporarily restricted net assets	<u>5,399,652</u>
Change in net assets	5,399,652
Net assets:	
Balance at beginning of year	<u>80,175,675</u>
Balance at end of year	<u>\$ 85,575,327</u>

See accompanying independent auditors' report.

SCHOLARSHIP AMERICA, INC.

Schedule of Functional Expenses

Year ended June 30, 2013

	Program services					Supporting services		Total	
	Scholarship awards	Scholarship Management Services™	Dollars for Scholars®	Dreamkeepers®	Families of Freedom NYC	Other	General and administrative		Fundraising
Scholarship awards	\$ 99,415,050	—	—	—	—	—	—	—	99,415,050
Personnel	—	3,555,558	877,102	104,626	210,572	11,692	2,477,387	1,192,587	8,429,524
Meetings and travel	—	94,647	103,926	85,764	6,070	13,026	177,039	121,118	601,590
Printing	—	137,008	20,335	3,134	—	65	30,872	5,895	197,309
Professional services	—	356,637	121,107	165,248	3,870	1,750	626,514	67,053	1,342,179
Publicity and promotion	—	43,628	140,021	—	5,500	—	39,987	39,973	269,109
Postage	—	215,746	11,937	215	(51)	—	10,962	7,434	246,243
Occupancy	—	182,345	46,423	—	—	—	131,314	27,389	387,471
Interest	—	36,947	1,523	—	—	—	4,542	—	43,012
Insurance	—	72,677	13,516	—	1,119	—	21,545	9,673	118,530
Office expenses	—	176,678	32,443	7,193	4,752	257	63,683	22,738	307,744
Depreciation	—	215,017	12,623	—	—	—	53,671	3,957	285,268
Miscellaneous	—	19,951	3,662	1,188	90	—	21,436	26,357	72,684
Total expenses	\$ 99,415,050	5,106,839	1,384,618	367,368	231,922	26,790	3,658,952	1,524,174	111,715,713

See accompanying independent auditors' report.