

SCHOLARSHIP AMERICA, INC.

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and For the Years Ended December 31, 2019 and 2018

SCHOLARSHIP AMERICA, INC.

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Independent Auditors' Report

To the Board of Trustees of
Scholarship America, Inc.

We have audited the accompanying financial statements of Scholarship America, Inc. (Scholarship America), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows and functional expenses 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on January 1, 2019, Scholarship America adopted *Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Other Matters

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 on pages 25 through 26 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 7, 2020

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,686,519	\$ 23,993,524
Accounts, interest and other receivables, net	1,980,693	1,681,292
Contributions receivable, net	628,419	1,930,200
Prepaid expenses and other assets	343,071	330,750
Total current assets	37,638,702	27,935,766
CONTRIBUTIONS RECEIVABLE , less current portion, net	2,292,681	314,965
INVESTMENTS	102,304,905	104,474,911
CASH SURRENDER VALUE OF LIFE INSURANCE	243,241	251,853
PROPERTY AND EQUIPMENT		
Land	312,966	312,966
Building and improvements	5,575,250	5,565,000
Furniture and equipment	4,683,129	4,515,195
Internally developed software	2,541,556	1,086,124
Construction in progress	269,047	583,484
	13,381,948	12,062,769
Less accumulated depreciation	(9,006,138)	(8,343,828)
Property and equipment, net	4,375,810	3,718,941
INTANGIBLE ASSETS		
Less accumulated amortization	2,069,062	2,069,062
	(1,314,083)	(1,110,524)
Intangible assets, net	754,979	958,538
TOTAL ASSETS	\$ 147,610,318	\$ 137,654,974
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 636,027	\$ 615,418
Accrued and other deferred liabilities	2,699,798	738,288
Current portion of long-term debt	138,932	132,907
Scholarships payable	10,856,834	6,834,545
Refundable deposits	33,780,819	35,394,923
Total Current Liabilities	48,112,410	43,716,081
LONG-TERM DEBT		
Total Liabilities	2,708,904	2,336,484
	50,821,314	46,052,565
NET ASSETS		
Without donor restrictions		
Designated for endowment	2,195,934	1,423,144
Undesignated	5,377,437	7,746,164
Total without donor restrictions	7,573,371	9,169,308
With donor restrictions		
Purpose restricted	74,246,607	68,740,980
Restricted in perpetuity	14,969,026	13,692,121
Total with donor restrictions	89,215,633	82,433,101
Total net assets	96,789,004	91,602,409
TOTAL LIABILITIES AND NET ASSETS	\$ 147,610,318	\$ 137,654,974

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
REVENUES AND SUPPORT						
Total scholarships raised	\$ 166,434,453	\$ -	\$ 166,434,453	\$ 156,300,679	\$ -	\$ 156,300,679
Less scholarships designated by donors for specific beneficiaries	(59,752,849)	-	(59,752,849)	(58,425,544)	-	(58,425,544)
Scholarship revenue	106,681,604	-	106,681,604	97,875,135	-	97,875,135
Program management fees	14,235,408	-	14,235,408	13,210,631	-	13,210,631
Investment income (loss)	487,402	10,425,385	10,912,787	407,335	(2,887,753)	(2,480,418)
Contributions and project grants	1,673,394	13,470,483	15,143,877	1,151,413	12,645,954	13,797,367
Other income	97,626	-	97,626	199,719	-	199,719
Dollars for Scholars® and other student programs	526,950	-	526,950	638,967	-	638,967
Revenues and support	123,702,384	23,895,868	147,598,252	113,483,200	9,758,201	123,241,401
Change in donor restrictions	-	2,048,579	2,048,579	-	(74,081)	(74,081)
Net assets released from restrictions						
Program management fees released	-	(1,059,902)	(1,059,902)	-	(658,121)	(658,121)
Satisfaction of program restrictions	18,102,013	(18,102,013)	-	18,381,728	(18,381,728)	-
Total revenues and support	141,804,397	6,782,532	148,586,929	131,864,928	(9,355,729)	122,509,199
EXPENSES						
Program services						
Total scholarship distributions	183,554,364	-	183,554,364	173,767,632	-	173,767,632
Less scholarships designated by donors for specific beneficiaries	(59,752,849)	-	(59,752,849)	(58,425,544)	-	(58,425,544)
Scholarship awards	123,801,515	-	123,801,515	115,342,088	-	115,342,088
Program management	7,407,001	-	7,407,001	6,943,445	-	6,943,445
Dollars for Scholars® and other student programs	864,058	-	864,058	858,890	-	858,890
Other programs	737,811	-	737,811	579,041	-	579,041
Supporting services						
Management and general	6,595,029	-	6,595,029	5,133,896	-	5,133,896
Fundraising	2,351,169	-	2,351,169	2,310,330	-	2,310,330
Total expenses	141,756,583	-	141,756,583	131,167,690	-	131,167,690
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING STANDARD						
	47,814	6,782,532	6,830,346	697,238	(9,355,729)	(8,658,491)
Cumulative effect of adoption of ASU 2014-09	(1,643,751)	-	(1,643,751)	-	-	-
Change in net assets	(1,595,937)	6,782,532	5,186,595	697,238	(9,355,729)	(8,658,491)
Net Assets - Beginning of Period	9,169,308	82,433,101	91,602,409	8,472,070	91,788,830	100,260,900
NET ASSETS - END OF PERIOD	\$ 7,573,371	\$ 89,215,633	\$ 96,789,004	\$ 9,169,308	\$ 82,433,101	\$ 91,602,409

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,186,595	\$ (8,658,491)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	662,310	470,691
Amortization of intangibles	203,559	203,559
Unrealized (gains) losses on investments	(1,836,554)	6,001,148
Realized gains on sale of investments	(7,136,958)	(977,303)
Scholarships distributed and designated by donors for specific beneficiaries	(59,752,849)	(58,425,544)
Scholarships raised and designated by donors for specific beneficiaries	59,752,849	58,425,544
Contributions restricted in perpetuity	(1,347,286)	(250)
Change in:		
Accounts, interest and other receivables	(299,401)	118,016
Contributions receivable, net	(675,935)	(220,304)
Prepaid expenses and other assets	(12,321)	(56,087)
Accounts payable	(34,185)	(156,843)
Scholarships payable	4,022,289	(4,426,123)
Accrued and other deferred liabilities	1,961,510	(83,730)
Refundable deposits	<u>(1,614,104)</u>	<u>2,064,533</u>
Net Cash Flows From Operating Activities	<u>(920,481)</u>	<u>(5,721,184)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(131,220,166)	(31,191,492)
Proceeds from sale of investments	142,363,684	36,790,374
Cash surrender value of life insurance	8,612	(157)
Purchase of property and equipment	<u>(1,264,385)</u>	<u>(1,152,391)</u>
Net Cash Flows From Investing Activities	<u>9,887,745</u>	<u>4,446,334</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for endowmen	1,347,286	250
Proceeds from long-term debt	500,000	1,000,000
Repayments of long-term debt	<u>(121,555)</u>	<u>-</u>
Net Cash Flows From Financing Activities	<u>1,725,731</u>	<u>1,000,250</u>
Net Change in Cash and Cash Equivalents	10,692,995	(274,600)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>23,993,524</u>	<u>24,268,124</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 34,686,519</u>	<u>\$ 23,993,524</u>
Supplemental cash flow information		
Cash paid for interest, net of amounts capitalized of \$34,705 and \$35,308, respectively	<u>\$ 18,700</u>	<u>\$ 29,715</u>
Noncash investing and financing activities		
Property and equipment acquired through accounts payable	<u>\$ 27,873</u>	<u>\$ 82,667</u>

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services					Support Services			Total
	Scholarship Awards	Program Management	Dollars for Scholars® and Other Student Programs	Families of Freedom NY	Other	Total Program Services	Management and General	Fundraising	
Scholarship awards	\$ 123,801,515	\$ -	\$ -	\$ -	\$ -	\$ 123,801,515	\$ -	\$ -	\$ 123,801,515
Personnel costs	-	5,461,663	700,564	347,622	-	6,509,849	4,107,225	1,663,241	12,280,315
Meetings and travel	-	276,815	24,607	27,185	41,243	369,850	166,473	267,741	804,064
Printing	-	62,878	904	2,856	-	66,638	14,553	12,674	93,865
Professional services	-	542,388	18,830	106,619	63,607	731,444	1,095,376	156,447	1,983,267
IT licenses/hosting	-	5,590	-	-	-	5,590	150,555	3,300	159,445
Publicity and promotion	-	5,930	60,025	528	1,000	67,483	202,251	8,061	277,795
Postage	-	139,981	118	956	683	141,738	5,129	6,771	153,638
Occupancy	-	154,210	9,229	-	111,839	275,278	204,362	90,056	569,696
Interest and other financing fees	-	55,837	5,480	-	-	61,317	24,086	10,405	95,808
Insurance	-	95,852	11,842	1,661	644	109,999	43,459	24,086	177,544
Office expenses	-	179,621	17,773	3,883	15,493	216,770	98,969	39,108	354,847
Depreciation and amortization	-	400,501	13,662	-	-	414,163	410,684	41,022	865,869
Miscellaneous	-	25,735	1,024	492	11,500	38,751	71,907	28,257	138,915
Total Expenses	\$ 123,801,515	\$ 7,407,001	\$ 864,058	\$ 491,802	\$ 246,009	\$ 132,810,385	\$ 6,595,029	\$ 2,351,169	\$ 141,756,583

See accompanying notes to the financial statements.

SCHOLARSHIP AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program Services					Support Services			Total
	Scholarship Awards	Program Management	Dollars for Scholars® and Other Student Programs	Families of Freedom NY	Other	Total Program Services	Management and General	Fundraising	
Scholarship awards	\$ 115,342,088	\$ -	\$ -	\$ -	\$ -	\$ 115,342,088	\$ -	\$ -	\$ 115,342,088
Personnel costs	-	5,228,542	732,030	316,166	-	6,276,738	3,258,548	1,527,464	11,062,750
Meetings and travel	-	250,749	23,253	18,559	31,019	323,580	160,639	254,146	738,365
Printing	-	59,050	307	2,850	1,425	63,632	2,200	10,901	76,733
Professional services	-	435,549	5,412	29,421	43,591	513,973	830,057	290,831	1,634,861
IT licenses/hosting	-	2,190	-	-	-	2,190	110,683	5,571	118,444
Publicity and promotion	-	11,498	46,603	117	-	58,218	164,706	4,930	227,854
Postage	-	131,045	633	1,298	66	133,042	5,543	4,867	143,452
Occupancy	-	175,410	12,639	-	99,318	287,367	190,025	93,078	570,470
Interest and other financing fees	-	42,355	4,313	-	-	46,668	14,538	6,008	67,214
Insurance	-	90,701	13,620	1,828	(136)	106,013	39,436	19,882	165,331
Office expenses	-	148,070	18,522	4,718	14,499	185,809	74,287	33,502	293,598
Depreciation and amortization	-	396,738	16,320	-	-	413,058	224,681	36,511	674,250
Miscellaneous	-	(28,452)	(14,762)	1,435	12,867	(28,912)	58,553	22,639	52,280
Total Expenses	\$ 115,342,088	\$ 6,943,445	\$ 858,890	\$ 376,392	\$ 202,649	\$ 123,723,464	\$ 5,133,896	\$ 2,310,330	\$ 131,167,690

See accompanying notes to financial statements.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

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 make students' dreams possible, regardless of financial status, through scholarships and other support. Until January 2003, the corporation was known as Citizens' Scholarship Foundation of America. Scholarship America is the nation's largest private scholarship provider driven to ensure that any student pursuing higher education receives the support they need. For over 60 years, Scholarship America has invested in student success through the design and management of custom education assistance programs with a focus on delivering financial and other support to students in need to fill gaps and promote degree completion.

The financial statements do not include assets, liabilities, revenues, or expenses of the individual Dollars for Scholars® chapters, because these chapters 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:

Without Donor Restrictions - This classification contains net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions - This classification includes net assets subject to donor-imposed stipulations that will be met by the action of Scholarship America and/or the passage of time. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting Scholarship America to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

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

Board Designated Net Assets

Scholarship America's Board of Trustees has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Trustees at any time. The Board of Trustees has designated a portion of Scholarship America's net assets without donor restrictions for the endowment (Note 8).

Scholarship Revenue and Expense

In situations where Scholarship America has variance power with respect to the determination of the beneficiary, scholarship revenue and the related scholarship distribution expense is recognized in the statement of activities. Variance power is the unilateral ability to redirect the use of the transferred assets to another beneficiary. 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. 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.

Scholarship revenue is recognized in the financial statements as a contribution when Scholarship America has the unconditional right to the assets contributed.

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 for the years ended December 31, 2019 and 2018. 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 days 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 certificates of deposit, are reported at fair value. Certificates of deposit 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.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

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

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 \$1,500. 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
Internally developed software	3 – 7

*Leasehold improvements are depreciated over the remaining life of the lease.

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 scholarship management business line. Amortization expense for each of the years 2020 through 2022 will be \$203,558, and \$144,306 in 2023.

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, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Conditional promises to give - that is, those with a measureable performance or other barrier and a right of return or release from future obligations - are not recognized until the conditions on which depend have been met.

Donor restricted contributions whose restrictions are met in the same reporting period are reported as net assets with donor restrictions and released to net assets without donor restrictions to reflect the expiration or fulfillment of such restrictions.

Promises to give (pledges) are recorded as contributions receivable using a discount rate of 3% and 5% for 2019 and 2018 respectively. Additionally, an allowance for uncollectible contributions is provided based on management's judgment, including factors such as prior collection history and the nature of fundraising activity.

Contributions of land, buildings, and equipment are recorded as net assets without donor restrictions 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 donor restricted net assets. Restrictions are considered met and an appropriate amount reclassified to net assets without donor restrictions when the asset is placed in service.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

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

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 program sponsor. 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.

Scholarship Program Management Fees

Scholarship program management fees are recognized as revenues in the statement of activities as the performance obligations are satisfied over the contract period. Performance obligations are outlined in each contract's program description or statement of work. Generally, the performance obligations include:

- Program design, production of application materials (on-line site) and opening of application
- Receipt, acknowledgement and processing of applications
- Selection of recipients and notifications
- Distribution of scholarship awards and final program reporting

As there is not a stand-alone transaction price observable for each program obligation, the transaction price (management fee) has been allocated to the various performance obligations (milestones) based on management's estimates of each milestone's relative value of the total value of the services to be provided under the contract. Management's estimates of the allocations are primarily based on historical time studies for level of effort to complete specific milestones over the course of the scholarship program cycle.

Scholarship program management fees received prior to the completion of specific performance obligations are deferred to the applicable period based on the contract program schedule.

Grants

Donor restricted grants are recognized as revenue and support with donor restrictions, and recorded as releases from restriction only to the extent that expenses have been incurred during the period for the purpose specified in the grant. In instances that grants include measureable performance obligations or other barriers and a right of return or release from future obligations, these grants are not recognized as revenue until the conditions on which they depend have been met. Advances of conditional grants are recorded as deferred revenue until conditions are met.

Functional Expenses

Scholarship America's financial statements segregate expenses by function, including program specific, general and administration and fundraising. Expenses are charged directly to specific functions when practicable. Expenses not identified as relating to specific functions such as depreciation and amortization, interest, and other facility related expenses are allocated primarily based on direct salary costs or headcount.

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, 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.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

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

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. Under this guidance, Scholarship America may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Scholarship America and various tax positions related to potential sources of unrelated business income. No liability has been recognized by Scholarship America for uncertain tax positions as of December 31, 2019 and 2018. Scholarship America's tax returns are subject to review and examination by federal and state authorities.

Retirement Plan

Scholarship America offers a 403(b) retirement plan to its employees. Employee participation is optional. Historically, Scholarship America has provided a matching contribution to employees participating in the plan. Scholarship America's matching contribution for the years ended December 31, 2019 and 2018 was 3%. Scholarship America's contributions to the plan totaled \$259,965 and \$239,055 for the years ended December 31, 2019 and 2018, respectively.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2020. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. Scholarship America is assessing the impact this standard will have on its financial statements.

New Accounting Pronouncements Adopted in Current Year

During June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Scholarship America adopted ASU 2018-08 as of January 1, 2019 and the adoption did not have material impact on Scholarship America's financial statements for the year ended December 31, 2019.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

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

New Accounting Pronouncement Adopted in Current Year (cont.)

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Scholarship America adopted ASU No. 2014-09 using the modified retrospective method applied to all contracts as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASU No. 2014-09 while prior period amounts continue to be reported in accordance with legacy GAAP. The cumulative effect of adoption of ASU No. 2014-09 as of January 1, 2019 was \$1,643,751 and is presented as an decrease to net assets without donor restrictions on the statement of activities.

NOTE 2 - Liquidity and Availability

The following table reflects Scholarship America's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include endowments and accumulated earnings restricted by donors or Scholarship America's Board of Trustees, and assets held for others.

	2019	2018
Financial assets		
Cash and cash equivalents	\$ 34,686,519	\$ 23,993,524
Contributions receivable	2,921,100	2,245,165
Accounts receivable	1,980,693	1,681,292
Investments	102,304,905	104,474,911
Cash surrender value of life insurance	243,241	251,853
Financial assets at December 31	142,136,458	132,646,745
Less those unavailable for general expenditure within one year		
Cash and cash equivalents restricted by use	30,980,683	19,411,242
Contributions receivable restricted by use	2,716,141	2,101,364
Accounts receivable restricted by use	317,787	375,174
Board designated investments	2,195,934	1,423,143
Donor designated investments restricted by use less amounts available for distribution	84,003,520	88,329,457
Permanently restricted investments	15,270,765	14,003,579
Cash surrender value of life insurance restricted by use	243,241	251,853
Financial assets not available for expenditure within one year	135,728,071	125,895,812
Financial assets available to meet cash needs for general purposes within one year	\$ 6,408,387	\$ 6,750,933

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 2 - Liquidity and Availability (cont.)

As of December 31, 2019 and 2018, Scholarship America had liquid assets on hand to cover approximately 137 and 163 days of operating expenses, respectively. Scholarship America's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 90 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. Scholarship America's Board of Trustees has established a board designated endowment fund (deducted from financial assets in the table above) that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. As of December 31, 2019 and 2018, this board designated endowment fund represents approximately 47 and 34 days of operating expenses, respectively. Scholarship America also has available a \$1,000,000 line of credit, representing approximately 21 days of operating expenses.

NOTE 3 - Contributions Receivable

Contributions receivable are to be collected during the following periods at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 634,767	\$ 2,031,789
One to five years	2,450,000	350,500
Greater than five years	-	-
	<u>3,084,767</u>	<u>2,382,289</u>
Less:		
Discounts for the time value of money	134,161	18,958
Allowance for uncollectible contributions	<u>29,506</u>	<u>118,166</u>
	<u>\$ 2,921,100</u>	<u>\$ 2,245,165</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 3% and 5% for the years ended December 31, 2019 and 2018, respectively.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 4 - INVESTMENTS AND INVESTMENT INCOME

Investments consisted of the following at December 31:

	2019	2018
Cash equivalents	\$ 8,725,776	\$ 2,814,920
Certificates of deposit (at cost)	2,069,715	2,501,281
U.S. government securities	2,923,917	4,545,524
Equity mutual funds	33,539,391	28,365,962
Equities	1,383,143	-
Fixed income mutual funds	31,149,862	38,189,113
Corporate bonds and notes	18,137,527	19,153,571
Master limited partnership and other mutual funds	1,309,295	4,198,390
Hedge funds	3,066,279	4,706,150
	\$ 102,304,905	\$ 104,474,911

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended December 31, 2019 and 2018:

	Interest and Dividends	Unrealized Gain (Loss)	Realized Gain (Loss)	Total
December 31, 2019				
Without Donor Restrictions	\$ 486,940	\$ -	\$ 462	\$ 487,402
With Donor Restrictions	1,452,335	1,836,554	7,136,496	10,425,385
Total	\$ 1,939,275	\$ 1,836,554	\$ 7,136,958	\$ 10,912,787
December 31, 2018				
Without Donor Restrictions	\$ 407,270	\$ -	\$ 65	\$ 407,335
With Donor Restrictions	2,136,157	(6,001,148)	977,238	(2,887,753)
Total	\$ 2,543,427	\$ (6,001,148)	\$ 977,303	\$ (2,480,418)

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 5 - 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.
- 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 (consisting primarily of money market funds), equity mutual funds, equities, fixed income mutual funds and master limited partnership and other mutual funds for which quoted prices are readily available.

Level 2 - Level 2 assets include:

- > Investments in 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.

There have been no changes in the techniques and inputs used as of December 31, 2019 and 2018.

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, 2019 and 2018

NOTE 5 - 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 8,725,776	\$ -	\$ -	\$ 8,725,776
Equity mutual funds	33,539,391	-	-	33,539,391
Equities	1,383,143	-	-	1,383,143
Debt securities				
Fixed income mutual funds	31,149,862	-	-	31,149,862
U.S. government securities	-	2,923,917	-	2,923,917
Corporate bonds and notes	-	18,137,527	-	18,137,527
Master limited partnership and other mutual funds	<u>1,309,295</u>	<u>-</u>	<u>-</u>	<u>1,309,295</u>
Subtotal assets by valuation hierarchy	<u>\$ 76,107,467</u>	<u>\$ 21,061,444</u>	<u>\$ -</u>	97,168,911
Assets measured using NAV				
Hedge funds				<u>3,066,279</u>
Total assets at fair value				<u>\$ 100,235,190</u>

Total assets at fair value exclude certificates of deposit recorded at cost of \$2,069,715 at December 31, 2019.

The following table presents information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 2,814,920	\$ -	\$ -	\$ 2,814,920
Equity mutual funds	28,365,962	-	-	28,365,962
Debt securities				
Fixed income mutual funds	38,189,113	-	-	38,189,113
U.S. government securities	-	4,545,524	-	4,545,524
Corporate bonds and notes	-	19,153,571	-	19,153,571
Master limited partnership and other mutual funds	<u>4,198,390</u>	<u>-</u>	<u>-</u>	<u>4,198,390</u>
Subtotal assets by valuation hierarchy	<u>\$ 73,568,385</u>	<u>\$ 23,699,095</u>	<u>\$ -</u>	97,267,480
Assets measured using NAV				
Hedge funds				<u>4,706,150</u>
Total assets at fair value				<u>\$ 101,973,630</u>

Total assets at fair value exclude certificates of deposit recorded at cost of \$2,501,281 at December 31, 2018.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 5 - FAIR VALUE MEASUREMENTS (cont.)

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, 2019 and 2018:

<u>Investment Type</u>	<u>Unfunded Commitments</u>	<u>2019 Fair Value</u>	<u>2018 Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Remaining Life (Years)</u>
Alternative Investments (a)						
Grosvenor Institutional Partners, L.P.	\$ -	\$ 3,066,279	\$ 4,706,150	(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.

NOTE 6 - LINE OF CREDIT AGREEMENT

In August 2019, Scholarship America renewed a \$1,000,000 bank line of credit financing agreement with Bremer Bank, NA. The line bears interest at the Prime Rate (as published from time to time in the Wall Street Journal) minus 0.25% with a floor of 3.0%. At December 31, 2019 the interest rate was 4.50%. Borrowings on the line of credit are secured by assets of Scholarship America including equipment and accounts receivable. The line of credit matures on September 1, 2020 and it is management's intention to renew the facility. At December 31, 2019, there were no borrowings under this agreement.

Under the terms of the line of credit agreement, Scholarship America is required to maintain a specified debt service coverage ratio.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 7 - LONG-TERM DEBT

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

	<u>2019</u>	<u>2018</u>
Note payable to Bremer Bank	\$ 2,847,836	\$ 2,469,391
Less current maturities	<u>(138,932)</u>	<u>(132,907)</u>
Long-term balance at December 31	<u>\$ 2,708,904</u>	<u>\$ 2,336,484</u>

Aggregate annual maturities of long-term debt at December 31, 2019 are as follows:

2020	\$ 138,932
2021	145,117
2022	151,229
2023	157,599
2024	<u>2,254,958</u>
	<u>\$ 2,847,836</u>

Scholarship America has a note payable through a term loan facility with Bremer Bank, NA. The term loan allows for borrowing of up to \$3,480,000 over an eighteen month draw period. During this initial draw period, only monthly interest payments were required. The term loan carries a fixed interest rate of 4.09%. The 18 month draw period ended in June 2019. The note is payable in quarterly installments consisting of principal and interest through September 1, 2024, at which time a lump sum payment is due. Borrowings under this facility are secured by a mortgage and security interest granted to the creditor by Scholarship America. The net book value of the security interest was \$1,666,440 at December 31, 2019. Proceeds of the note were used to repay an existing note payable and to fund technology investments. Under the terms of the note payable, Scholarship America is required to maintain a specified debt service coverage ratio and debt to tangible net worth ratio as measured at the end of each year.

NOTE 8 - 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.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 8 - ENDOWMENT FUNDS (cont.)

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 net assets with donor restrictions- held in perpetuity (1) the original value of the initial gift donated to the endowment; (2) the original value of subsequent gifts donated to the endowment fund; and (3) any earnings and gains/losses required by the donor to be added to the original value of the 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 net assets with donor restrictions 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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 18,744,733	\$ 18,744,733
Board-designated endowment funds	<u>2,195,934</u>	<u>-</u>	<u>2,195,934</u>
	<u>\$ 2,195,934</u>	<u>\$ 18,744,733</u>	<u>\$ 20,940,667</u>

Endowment net asset composition by type of fund consists of the following as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 15,504,413	\$ 15,504,413
Board-designated endowment funds	<u>1,423,143</u>	<u>-</u>	<u>1,423,143</u>
	<u>\$ 1,423,143</u>	<u>\$ 15,504,413</u>	<u>\$ 16,927,556</u>

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 8 - ENDOWMENT FUNDS (cont.)

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ 1,423,143	\$ 15,504,413	\$ 16,927,556
Investment return			
Investment income	30,759	416,102	446,861
Net gain on investments	-	2,176,265	2,176,265
Total investment return	30,759	2,592,367	2,623,126
Contributions	-	1,347,286	1,347,286
Return of endowment assets - operations	742,032		742,032
Appropriation of endowment assets - satisfaction of program restrictions	-	(503,887)	(503,887)
Appropriation of endowment assets - spending policy	-	(87,944)	(87,944)
Change in donor restrictions	-	(107,502)	(107,502)
Endowment net assets, December 31, 2019	\$ 2,195,934	\$ 18,744,733	\$ 20,940,667
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 906,591	\$ 17,027,617	\$ 17,934,208
Investment return			
Investment income	16,552	428,520	445,072
Net (loss) on investments	-	(1,336,766)	(1,336,766)
Total investment return	16,552	(908,246)	(891,694)
Contributions	-	250	250
Return of endowment assets - operations	500,000	-	500,000
Appropriation of endowment assets - satisfaction of program restrictions	-	(520,710)	(520,710)
Appropriation of endowment assets - spending policy	-	(86,448)	(86,448)
Change in donor restrictions	-	(8,050)	(8,050)
Endowment net assets, December 31, 2018	\$ 1,423,143	\$ 15,504,413	\$ 16,927,556

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 8 - ENDOWMENT FUNDS (cont.)

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. At December 31, 2019, there were no underwater endowment investments. At December 31, 2018, two donor restricted funds with original gift values of \$301,764, fair market values of \$287,056 and deficiencies of \$14,708 were reported in net assets with donor restrictions. Management has interpreted state law to permit prudent spending from underwater endowments.

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.

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 donor-restricted 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, 2019 and 2018, \$87,944 and \$86,448 was released for operations, respectively.

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are available at December 31 for the following purposes:

	<u>2019</u>	<u>2018</u>
The portion of unexpended investment return generated from donor restricted endowment funds subject to UPMIFA available for scholarships	\$ 3,936,726	\$ 1,978,399
Gifts and other unexpended revenues and support available for:		
Scholarships	69,456,768	65,858,826
Regions	54,772	68,491
Other projects	798,343	835,265
Endowment fund for:		
Scholarships	12,481,349	11,199,356
Regions	1,336,658	1,336,658
Other projects	990,000	990,000
Non endowment funds restricted in perpetuity for scholarships	<u>161,017</u>	<u>166,107</u>
	<u>\$ 89,215,633</u>	<u>\$ 82,433,101</u>

NOTE 10 - LEASES

Rental expense for office space was \$339,275 and \$324,869 for the years ended December 31, 2019 and 2018, respectively. Lease agreements having an original term of more than one year expire on various dates through 2025. Minimum annual payments under terms of these operating leases are as follows:

Year ending December 31:	
2020	\$ 147,914
2021	150,414
2022	152,913
2023	155,412
2024	157,911
2025 and thereafter	<u>39,739</u>
	<u>\$ 804,303</u>

SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

NOTE 11 - SUPPORTING SERVICES EXPENSE RATIOS

Scholarship America's supporting services expense ratios as a percentage of revenues and support without donor restriction, excluding scholarships designated by donors for specific beneficiaries, for the years ended December 31, 2019 and 2018 are as follows:

	2019		2018	
General and administration	\$ 6,595,029	4.65%	\$ 5,133,896	3.90%
Fundraising	<u>2,351,169</u>	<u>1.66%</u>	<u>2,310,330</u>	<u>1.75%</u>
Total	<u>\$ 8,946,198</u>	<u>6.31%</u>	<u>\$ 7,444,226</u>	<u>5.65%</u>
Revenues and support without donor restriction, excluding scholarships designated by donors for specific beneficiaries	<u>\$ 141,804,397</u>		<u>\$ 131,864,928</u>	

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

NOTE 12 - SUBSEQUENT EVENTS

Scholarship America has evaluated subsequent events through May 7, 2020, which is the date that the financial statements were approved and available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including Minnesota in which the Organization operates. As of the date above, the Organization's evaluation of the effects of these events is ongoing; however, in February, March and April 2020, the Organization began to experience reductions in unrestricted revenue streams including program fee revenues as a number of scholarship sponsors made the decision to suspend their programs and investment income. There is considerable uncertainty around the duration and magnitude of potential impacts, particularly given the lack of clarity on how the pandemic is altering the operations of higher education institutions.

The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, continuing economic impacts and related higher education institutional, governmental or other regulatory actions.

In response to the uncertain economic conditions presented by the COVID-19 pandemic situation, Scholarship America expanded the borrowing capacity under its bank line of credit facility with Bremer Bank from \$1,000,000 to \$2,000,000 effective March 27, 2020. All terms and conditions of the bank line of credit remain unchanged and the line matures on September 1, 2020. Management intends to renew the bank line of credit prior to maturity and will assess the borrowing capacity level at that time.

In addition, on April 9, 2020, Scholarship America entered into a new loan facility with Bremer Bank, NA under the recent government enacted Paycheck Protection Program (part of the Coronavirus Aid, Relief and Economic Stability Act) administered by the Small Business Administration. Scholarship America borrowed \$2,229,200 under the loan facility. The loan carries a fixed interest rate of 1% and matures in April 2022. No payments are required for the first six months. Borrowings under this facility are unsecured. Loans under the Paycheck Protection Program have a loan forgiveness feature based on the level of payroll, rent and utilities costs over an eight week period commencing on the date of the loan.

SCHOLARSHIP AMERICA, INC.

FAMILIES OF FREEDOM SCHOLARSHIP FUND
 SCHEDULE OF FINANCIAL POSITION
 As of December 31, 2019

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 5,055,886
	<u>5,055,886</u>
CONTRIBUTIONS RECEIVABLE , less current portion, net	233,292
INVESTMENTS	<u>17,645,638</u>
TOTAL ASSETS	<u>\$ 22,934,816</u>
LIABILITIES AND NET ASSETS	
REFUNDABLE DEPOSITS	\$ 3,610,186
NET ASSETS	
With donor restrictions	<u>19,324,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,934,816</u>

SCHOLARSHIP AMERICA, INC.

FAMILIES OF FREEDOM SCHOLARSHIP FUND
 SCHEDULE OF ACTIVITIES
 For the Year Ended December 31, 2019

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets released from restrictions	
Satisfaction of program restrictions	\$ 10,127,125
Total revenues and support without donor restrictions	<u>10,127,125</u>

EXPENSES

Program services:	
Scholarship awards	9,528,610
Scholarship Management Services™	61,907
Supporting services:	
Management and general	536,286
Fundraising	<u>322</u>
Total expenses	<u>10,127,125</u>

Change in net assets without donor restrictions -

Changes in net assets with donor restrictions

Contributions for scholarships	246,772
Change in donor restrictions	2,000,000
Investment income, net	2,723,035
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>(10,127,125)</u>
Change in net assets with donor restrictions	<u>(5,157,318)</u>

Change in net assets (5,157,318)

Net Assets - Beginning of Period 24,481,948

NET ASSETS - END OF PERIOD \$ 19,324,630