

# **Scholarship America, Inc.**

Financial Statements and  
Supplementary Information

December 31, 2023 and 2022

# Scholarship America, Inc.

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December 31, 2023 and 2022

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## Independent Auditors' Report

To the Board of Trustees of  
Scholarship America, Inc.

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Scholarship America, Inc. (Scholarship America), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Scholarship America as of December 31, 2023 and 2022, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Scholarship America and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Scholarship America's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Scholarship America's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Scholarship America's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

## **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 and 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 US, LLP*

Minneapolis, Minnesota  
June 6, 2024

**Scholarship America, Inc.**Statements of Financial Position  
December 31, 2023 and 2022

| Assets   | 2023                  | 2022                  |
|--|-----------------------|-----------------------|
| <b>Current Assets</b>                                      |                       |                       |
| Cash and cash equivalents                                  | \$ 25,294,008         | \$ 30,664,295         |
| Accounts, interest and other receivables, net              | 2,832,978             | 3,232,618             |
| Contributions receivable, net                              | 1,153,451             | 486,218               |
| Prepaid expenses and other assets                          | 425,218               | 393,210               |
| Assets held for sale - net                                 | 955,043               | -                     |
| Total current assets                                       | <u>30,660,698</u>     | <u>34,776,341</u>     |
| <b>Contributions Receivable, Less Current Portion, Net</b> | <u>986,839</u>        | <u>2,092,056</u>      |
| <b>Investments</b>   | <u>137,195,607</u>    | <u>126,337,988</u>    |
| <b>Cash Surrender Value of Life Insurance</b>              | <u>202,741</u>        | <u>215,753</u>        |
| <b>Property and Equipment</b>                              |                       |                       |
| Land   | -                     | 312,966               |
| Building and improvements                                  | 496,623               | 5,618,069             |
| Furniture and equipment                                    | 5,044,990             | 5,264,924             |
| Internally developed software                              | 5,941,156             | 5,515,350             |
|  | 11,482,769            | 16,711,309            |
| Less accumulated depreciation                              | <u>(8,551,313)</u>    | <u>(12,283,159)</u>   |
| Property and equipment, net                                | <u>2,931,456</u>      | <u>4,428,150</u>      |
| <b>Intangible Assets</b>                                   |                       |                       |
| Goodwill, net  | -                     | 144,307               |
| Right-of-use assets, net                                   | 325,833               | 440,876               |
| Intangible assets, net                                     | <u>325,833</u>        | <u>585,183</u>        |
| Total assets   | <u>\$ 172,303,174</u> | <u>\$ 168,435,471</u> |
| <b>Liabilities and Net Assets</b>                          |                       |                       |
| <b>Current Liabilities</b>                                 |                       |                       |
| Accounts payable   | \$ 783,259            | \$ 574,136            |
| Accrued and other deferred liabilities                     | 5,810,734             | 5,526,289             |
| Current portion of long-term debt                          | 2,249,662             | 157,600               |
| Current portion of lease liabilities                       | 107,043               | 114,139               |
| Scholarships payable                                       | 20,695,856            | 22,357,911            |
| Refundable deposits  | 27,114,049            | 32,411,845            |
| Total current liabilities                                  | <u>56,760,603</u>     | <u>61,141,920</u>     |
| <b>Long-term Liabilities</b>                               |                       |                       |
| Long-term debt, net  | -                     | 2,255,042             |
| Long-term lease liabilities                                | 264,993               | 372,036               |
| Total long-term liabilities                                | <u>264,993</u>        | <u>2,627,078</u>      |
| Total liabilities  | <u>57,025,596</u>     | <u>63,768,998</u>     |
| <b>Net Assets</b>  |                       |                       |
| Without donor restrictions:                                |                       |                       |
| Designated for endowment                                   | 2,364,105             | 2,240,546             |
| Designated for strategic initiatives                       | 574,175               | 557,278               |
| Undesignated   | 8,531,170             | 6,571,995             |
| Total without donor restrictions                           | <u>11,469,450</u>     | <u>9,369,819</u>      |
| With donor restrictions:                                   |                       |                       |
| Purpose restricted   | 89,625,742            | 80,760,933            |
| Restricted in perpetuity                                   | 14,182,386            | 14,535,721            |
| Total with donor restrictions                              | <u>103,808,128</u>    | <u>95,296,654</u>     |
| Total net assets   | <u>115,277,578</u>    | <u>104,666,473</u>    |
| Total liabilities and net assets                           | <u>\$ 172,303,174</u> | <u>\$ 168,435,471</u> |

See notes to financial statements

**Scholarship America, Inc.**

Statements of Activities

Years Ended December 31, 2023 and 2022

|   | 2023                       |                         |                | 2022                       |                         |                |
|---|----------------------------|-------------------------|----------------|----------------------------|-------------------------|----------------|
|   | Without Donor Restrictions | With Donor Restrictions | Total          | Without Donor Restrictions | With Donor Restrictions | Total          |
| <b>Revenues and Support</b>                                       |                            |                         |                |                            |                         |                |
| Total scholarships raised   | \$ 190,041,356             | \$ -                    | \$ 190,041,356 | \$ 176,648,147             | \$ -                    | \$ 176,648,147 |
| Less scholarships designated by donors for specific beneficiaries | (50,782,202)               | -                       | (50,782,202)   | (47,488,233)               | -                       | (47,488,233)   |
| Scholarship revenue   | 139,259,154                | -                       | 139,259,154    | 129,159,914                | -                       | 129,159,914    |
| Scholarship program management fees                               | 16,312,531                 | -                       | 16,312,531     | 15,250,753                 | -                       | 15,250,753     |
| Investment income (loss)  | 2,022,854                  | 8,239,786               | 10,262,640     | 358,709                    | (8,645,968)             | (8,287,259)    |
| Contributions, cash and financial assets                          | 2,194,291                  | 26,912,300              | 29,106,591     | 2,991,524                  | 26,732,667              | 29,724,191     |
| Other income  | 84,110                     | -                       | 84,110         | 72,792                     | -                       | 72,792         |
| Dollars for Scholars® and other student programs                  | 347,300                    | -                       | 347,300        | 467,450                    | -                       | 467,450        |
| Revenues and support  | 160,220,240                | 35,152,086              | 195,372,326    | 148,301,142                | 18,086,699              | 166,387,841    |
| Change in donor restrictions                                      | -                          | 1,119,112               | 1,119,112      | -                          | (501,852)               | (501,852)      |
| Net assets released from restrictions:                            |                            |                         |                |                            |                         |                |
| Program management fees released                                  | -                          | (1,707,371)             | (1,707,371)    | -                          | (1,496,737)             | (1,496,737)    |
| Satisfaction of program restrictions                              | 26,052,353                 | (26,052,353)            | -              | 21,905,355                 | (21,905,355)            | -              |
| Total revenues and support  | 186,272,593                | 8,511,474               | 194,784,067    | 170,206,497                | (5,817,245)             | 164,389,252    |
| <b>Expenses</b>   |                            |                         |                |                            |                         |                |
| Program services:   |                            |                         |                |                            |                         |                |
| Total scholarship distributions                                   | 215,549,959                | -                       | 215,549,959    | 197,899,104                | -                       | 197,899,104    |
| Less scholarships designated by donors for specific beneficiaries | (50,782,202)               | -                       | (50,782,202)   | (47,488,233)               | -                       | (47,488,233)   |
| Scholarship awards  | 164,767,757                | -                       | 164,767,757    | 150,410,871                | -                       | 150,410,871    |
| Program management  | 7,540,860                  | -                       | 7,540,860      | 7,521,271                  | -                       | 7,521,271      |
| Dollars for Scholars® and other student programs                  | 368,682                    | -                       | 368,682        | 482,591                    | -                       | 482,591        |
| Other programs  | 37,926                     | -                       | 37,926         | 311,311                    | -                       | 311,311        |
| Supporting services:  |                            |                         |                |                            |                         |                |
| Management and general  | 9,234,576                  | -                       | 9,234,576      | 8,789,255                  | -                       | 8,789,255      |
| Fundraising   | 2,223,161                  | -                       | 2,223,161      | 2,383,571                  | -                       | 2,383,571      |
| Total expenses  | 184,172,962                | -                       | 184,172,962    | 169,898,870                | -                       | 169,898,870    |
| Change in net assets from operating activities                    | 2,099,631                  | 8,511,474               | 10,611,105     | 307,627                    | (5,817,245)             | (5,509,618)    |
| Change in net assets  | 2,099,631                  | 8,511,474               | 10,611,105     | 307,627                    | (5,817,245)             | (5,509,618)    |
| <b>Net Assets, Beginning</b>                                      | 9,369,819                  | 95,296,654              | 104,666,473    | 9,062,192                  | 101,113,899             | 110,176,091    |
| <b>Net Assets, Ending</b>   | \$ 11,469,450              | \$ 103,808,128          | \$ 115,277,578 | \$ 9,369,819               | \$ 95,296,654           | \$ 104,666,473 |

See notes to financial statements

**Scholarship America, Inc.**

Statement of Functional Expenses

Year Ended December 31, 2023

|                                   | Program Services      |                     |  |                        |                  | Supporting 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                | \$ 164,767,757        | \$ -                | \$ -   | \$ -                   | \$ -             | \$ 164,767,757         | \$ -                   | \$ -                | \$ 164,767,757        |
| Personnel costs                   | -                     | 5,897,174           | 312,423  | -                      | -                | 6,209,597              | 5,708,572              | 1,645,139           | 13,563,308            |
| Meetings and travel               | -                     | 13,062              | 2,471  | -                      | 11,043           | 26,576                 | 175,048                | 162,603             | 364,227               |
| Printing                          | -                     | 8,327               | -  | -                      | -                | 8,327                  | 2,249                  | 24,895              | 35,471                |
| Professional services             | -                     | 810,631             | 15   | 1,733                  | 2,500            | 814,879                | 1,262,965              | 228,589             | 2,306,433             |
| IT licenses/hosting               | -                     | 5,913               | -  | -                      | -                | 5,913                  | 500,416                | 3,393               | 509,722               |
| Publicity and promotion           | -                     | -                   | 32,000   | -                      | -                | 32,000                 | 181,677                | 9,631               | 223,308               |
| Postage                           | -                     | 56,057              | 130  | -                      | 398              | 56,585                 | 3,184                  | 6,400               | 66,169                |
| Occupancy                         | -                     | 128,005             | 4,373  | -                      | -                | 132,378                | 206,213                | 41,113              | 379,704               |
| Interest and other financing fees | -                     | 46,145              | 2,285  | -                      | -                | 48,430                 | 23,759                 | 7,310               | 79,499                |
| Insurance                         | -                     | 151,128             | 7,281  | (89)                   | 570              | 158,890                | 82,493                 | 25,673              | 267,056               |
| Office expenses                   | -                     | 123,068             | 4,926  | -                      | 1,049            | 129,043                | 78,098                 | 20,006              | 227,147               |
| Depreciation and amortization     | -                     | 209,998             | 2,778  | 14,856                 | -                | 227,632                | 950,280                | 13,576              | 1,191,488             |
| Miscellaneous                     | -                     | 91,352              | -  | 241                    | 5,625            | 97,218                 | 59,622                 | 34,833              | 191,673               |
| <b>Total expenses</b>             | <b>\$ 164,767,757</b> | <b>\$ 7,540,860</b> | <b>\$ 368,682</b>                                | <b>\$ 16,741</b>       | <b>\$ 21,185</b> | <b>\$ 172,715,225</b>  | <b>\$ 9,234,576</b>    | <b>\$ 2,223,161</b> | <b>\$ 184,172,962</b> |

See notes to financial statements

**Scholarship America, Inc.**

## Statement of Functional Expenses

Year Ended December 31, 2022

|                                   | Program Services      |                     |  |                        |                  | Supporting 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                | \$ 150,410,871        | \$ -                | \$ -   | \$ -                   | \$ -             | \$ 150,410,871         | \$ -                   | \$ -                | \$ 150,410,871        |
| Personnel costs                   | -                     | 6,102,143           | 419,046  | 218,011                | -                | 6,739,200              | 5,438,556              | 1,714,379           | 13,892,135            |
| Meetings and travel               | -                     | 5,227               | 1,508  | 2,316                  | 29,709           | 38,760                 | 182,935                | 204,634             | 426,329               |
| Printing                          | -                     | 7,977               | -  | -                      | -                | 7,977                  | 3,381                  | 18,592              | 29,950                |
| Professional services             | -                     | 555,469             | 72   | 1,249                  | 29,700           | 586,490                | 1,303,804              | 241,592             | 2,131,886             |
| IT licenses/hosting               | -                     | 8,023               | -  | -                      | -                | 8,023                  | 361,680                | -                   | 369,703               |
| Publicity and promotion           | -                     | -                   | 34,000   | 3,385                  | -                | 37,385                 | 178,737                | 12,239              | 228,361               |
| Postage                           | -                     | 65,874              | 2  | 150                    | 927              | 66,953                 | 3,902                  | 5,335               | 76,190                |
| Occupancy                         | -                     | 119,759             | 4,515  | -                      | 3,717            | 127,991                | 131,300                | 36,528              | 295,819               |
| Interest and other financing fees | -                     | 50,685              | 3,319  | -                      | -                | 54,004                 | 27,939                 | 9,481               | 91,424                |
| Insurance                         | -                     | 133,522             | 8,949  | 1,873                  | 753              | 145,097                | 81,359                 | 33,551              | 260,007               |
| Office expenses                   | -                     | 114,491             | 6,075  | 2,002                  | 976              | 123,544                | 80,407                 | 23,180              | 227,131               |
| Depreciation and amortization     | -                     | 336,617             | 5,085  | 14,856                 | -                | 356,558                | 970,843                | 54,108              | 1,381,509             |
| Miscellaneous                     | -                     | 21,484              | 20   | 675                    | 1,012            | 23,191                 | 24,412                 | 29,952              | 77,555                |
| <b>Total expenses</b>             | <b>\$ 150,410,871</b> | <b>\$ 7,521,271</b> | <b>\$ 482,591</b>                                | <b>\$ 244,517</b>      | <b>\$ 66,794</b> | <b>\$ 158,726,044</b>  | <b>\$ 8,789,255</b>    | <b>\$ 2,383,571</b> | <b>\$ 169,898,870</b> |

See notes to financial statements



**Scholarship America, Inc.**

## Statements of Cash Flows

Years Ended December 31, 2023 and 2022

|  | <u>2023</u>          | <u>2022</u>          |
|--|----------------------|----------------------|
| <b>Cash Flows From Operating Activities</b>  |                      |                      |
| Change in net assets   | \$ 10,611,105        | \$ (5,509,618)       |
| Adjustments to reconcile change in net assets to net cash flows from operating activities:   |                      |                      |
| Depreciation   | 1,046,933            | 1,177,953            |
| Amortization of goodwill intangibles   | 144,307              | 203,556              |
| Non-cash lease expense   | 904                  | (138,534)            |
| Unrealized (gains) losses on investments   | (5,080,726)          | 10,708,728           |
| Realized gains on sale of investments  | (362,832)            | (132,247)            |
| Scholarships distributed and designated by donors for specific beneficiaries                 | (50,782,202)         | (47,488,233)         |
| Scholarships raised and designated by donors for specific beneficiaries                      | 50,782,202           | 47,488,233           |
| Contributions restricted in perpetuity   | (925)                | (1,850)              |
| Change in:   |                      |                      |
| Accounts, interest and other receivables   | 399,640              | (1,128,716)          |
| Contributions receivable, net  | 437,984              | 29,918               |
| Prepaid expenses and other assets  | (32,008)             | 10,922               |
| Accounts payable   | 209,123              | (184,042)            |
| Accrued and other deferred liabilities   | 284,445              | 1,718,658            |
| Scholarships payable   | (1,662,055)          | (959,893)            |
| Refundable deposits  | (5,297,796)          | 1,362,695            |
| Net cash flows from operating activities   | <u>698,099</u>       | <u>7,157,530</u>     |
| <b>Cash Flows From Investing Activities</b>  |                      |                      |
| Purchase of investments  | (166,235,385)        | (98,472,695)         |
| Proceeds from sale of investments  | 160,821,324          | 91,000,220           |
| Change in cash surrender value of life insurance   | 13,012               | 17,830               |
| Purchase of property and equipment   | (505,282)            | (511,059)            |
| Net cash flows from investing activities   | <u>(5,906,331)</u>   | <u>(7,965,704)</u>   |
| <b>Cash Flows From Financing Activities</b>  |                      |                      |
| Contributions received restricted for endowment  | 925                  | 1,850                |
| Repayments of long-term debt   | (162,980)            | (151,235)            |
| Net cash flows from financing activities   | <u>(162,055)</u>     | <u>(149,385)</u>     |
| Net change in cash and cash equivalents  | (5,370,287)          | (957,559)            |
| <b>Cash and Cash Equivalents, Beginning</b>  | <u>30,664,295</u>    | <u>31,621,854</u>    |
| <b>Cash and Cash Equivalents, Ending</b>   | <u>\$ 25,294,008</u> | <u>\$ 30,664,295</u> |
| <b>Supplemental Cash Flow Information</b>  |                      |                      |
| Cash paid for interest, including amounts capitalized of \$17,651 and \$12,027, respectively | <u>\$ 47,978</u>     | <u>\$ 91,938</u>     |
| Acquisition of right-of-use asset, net deferred rent, in exchange for lease liability        | <u>\$ -</u>          | <u>\$ 568,038</u>    |

See notes to financial statements

# Scholarship America, Inc.

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Notes to Financial Statements  
December 31, 2023 and 2022

## 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 eliminate barriers to educational success so that any student can pursue their dream. 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 empower an America where those with the most need have the opportunity to thrive through equitable pathways to education and training. 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. The Fund is due to sunset in 2030.

### 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

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.

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Notes to Financial Statements  
December 31, 2023 and 2022

### 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) and for strategic initiatives.

### 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 statements 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 in the statements of activities; they are included in scholarships raised and deducted from that amount to calculate scholarship revenue and included in scholarship distributions and deducted from that amount to calculate the scholarship awards.

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

### Operating Measure

Scholarship America's operating measure includes all activity other than contributions designated by the Board of Trustees for strategic initiatives.

### 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, 2023 and 2022. 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.

The Organization recognizes an allowance for credit losses for trade and other receivables to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the date of the statement of financial position. Receivables are written off when the Organization determined that such receivables are deemed uncollectible. The Organization pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Organization measures those receivables individually. The Organization also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change. Delinquent accounts are not charged a service fee.

# Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

## Investments

Investments, excluding certificates of deposit, are reported at fair value. Certificates of deposit are reported at cost, which approximates fair value. Alternative investments are recorded at net asset value as a practical expedient to fair value.

## Assets Held for Sale

The Organization reclassified the net book value of certain land and building intended to be sold to assets held for sale as of December 31, 2023. The land and building are pledged as security under the terms of the note payable (Note 7).

## 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 - 10       |

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

## Impairment of Long-Lived Assets

At each reporting date, Scholarship America evaluates the carrying amount of its long-lived assets. In the event that facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation of impairment is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying value to determine if an adjustment to fair value or discounted cash flow value is required. There were no impairments in 2023 or 2022.

## Intangible Assets

Acquired intangible assets (goodwill) are the result of purchased customer contracts. These assets are valued at actual purchase price. The intangible assets were amortized over 10.1 years, which is the average historical duration for client relationships in the scholarship management business line. Acquired intangible assets were fully amortized during 2023.

## Contributions

Unconditional contributions, including 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. 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.

Conditional promises to give - that is, those with a measurable 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.

## Scholarship America, Inc.

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Notes to Financial Statements  
December 31, 2023 and 2022

Unconditional promises to give (pledges) are recorded as contributions receivable using a discount rate of 5 percent for 2023 and 3.5 percent for 2022. 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 at fair market value at the date of the gift. Contribution revenue is 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.

### **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 statements 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. Amounts deferred in the statements of financial position at December 31, 2023 and 2022 are generally recognized as revenue in the following year.

### **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 measurable 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.

# Scholarship America, Inc.

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Notes to Financial Statements  
December 31, 2023 and 2022

## Functional Expenses

Scholarship America's financial statements segregate expenses by function, including program services, management and general 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.

## 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, 2023 and 2022. 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, 2023 and 2022 was 3 percent of eligible employees' compensation. Scholarship America's contributions to the plan totaled \$311,827 and \$303,261 for the years ended December 31, 2023 and 2022, respectively.

## New Accounting Pronouncements Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Financial Instruments – Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. On January 1, 2023, the Organization adopted the standard prospectively and the implementation did not have a material impact on the financial statements.

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 2. Liquidity and Availability

The following table reflects Scholarship America's financial assets as of December 31, 2023 and 2022, 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.

|  | <u>2023</u>          | <u>2022</u>          |
|--|----------------------|----------------------|
| Financial assets:  |                      |                      |
| Cash and cash equivalents  | \$ 25,294,008        | \$ 30,664,295        |
| Contributions receivable, net  | 2,140,290            | 2,578,274            |
| Accounts receivable, net   | 2,832,978            | 3,232,618            |
| Investments  | 137,195,607          | 126,337,988          |
| Cash surrender value of life insurance   | 202,741              | 215,753              |
|  | <u>167,665,624</u>   | <u>163,028,928</u>   |
| Financial assets at December 31  |                      |                      |
| Less those unavailable for general expenditure within one year:                        |                      |                      |
| Cash and cash equivalents restricted by use  | (20,476,760)         | (24,236,754)         |
| Contributions receivable restricted by use   | (1,864,053)          | (2,337,784)          |
| Accounts receivable restricted by use  | (399,106)            | (257,697)            |
| Board designated investments   | (2,364,105)          | (2,240,546)          |
| Board designated for strategic initiatives   | (574,175)            | (557,278)            |
| Donor restricted investments restricted by use less amounts available for distribution | (115,018,887)        | (108,460,029)        |
| Permanently restricted investments   | (14,527,973)         | (14,926,364)         |
| Cash surrender value of life insurance restricted by use                               | (202,741)            | (215,753)            |
|  | <u>(155,427,800)</u> | <u>(153,232,205)</u> |
| Financial assets not available for expenditure within one year                         |                      |                      |
| Financial assets available to meet cash needs for general purposes within one year     | <u>\$ 12,237,824</u> | <u>\$ 9,796,723</u>  |

As of December 31, 2023 and 2022, Scholarship America had liquid assets on hand to cover approximately 247 and 198 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, 2023 and 2022, this board designated endowment fund represents approximately 48 and 45 days of operating expenses, respectively. Scholarship America also has available a \$2,000,000 line of credit, representing approximately 40 days of operating expenses (Note 6).

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 3. Contributions Receivable

Contributions receivable are to be collected during the following periods at December 31, 2023 and 2022:

|   | <u>2023</u>         | <u>2022</u>         |
|---|---------------------|---------------------|
| Less than one year                        | \$ 1,165,102        | \$ 491,129          |
| One to five years                         | 1,045,000           | 2,215,000           |
| Greater than five years                   | 5,000               | 10,000              |
|   | <u>2,215,102</u>    | <u>2,716,129</u>    |
| Less:                                     |                     |                     |
| Discounts for the time value of money     | (53,193)            | (111,812)           |
| Allowance for uncollectible contributions | <u>(21,619)</u>     | <u>(26,043)</u>     |
|   | <u>\$ 2,140,290</u> | <u>\$ 2,578,274</u> |

Contributions receivable due within one year are not discounted. Contributions receivable expected to be collected in more than one year have been discounted at 5 percent for the year ended December 31, 2023 and at 3.5 percent for the year ended December 31, 2022. Approximately 70% of the balance at December 31, 2023 and 2022 was due from two estate gifts.

### 4. Investments and Investment Income

Investments consisted of the following at December 31:

|   | <u>2023</u>           | <u>2022</u>           |
|---|-----------------------|-----------------------|
| Cash equivalents                                  | \$ 27,060,106         | \$ 40,034,708         |
| Certificates of deposit (at cost)                 | 262,511               | 564,156               |
| U.S. government securities                        | 29,716,750            | 4,703,593             |
| Equity mutual funds                               | 32,776,462            | 31,603,437            |
| Equities  | 1,542,896             | 1,668,829             |
| Fixed income mutual funds                         | 33,416,142            | 30,116,079            |
| Corporate bonds and notes                         | 6,152,590             | 11,092,026            |
| Master limited partnership and other mutual funds | 2,797,070             | 1,885,510             |
| Hedge funds                                       | 3,471,080             | 4,669,650             |
|   | <u>\$ 137,195,607</u> | <u>\$ 126,337,988</u> |

Investment income is recorded in the statements of activities and comprises the following for the years ended December 31, 2023 and 2022:

|                            | <u>Interest and<br/>Dividends, net</u> | <u>Unrealized<br/>Gain (Loss)</u> | <u>Realized (Loss)<br/>Gain</u> | <u>Total</u>          |
|----------------------------|--|-----------------------------------|---------------------------------|-----------------------|
| December 31, 2023:         |  |                                   |                                 |                       |
| Without donor restrictions | \$ 2,051,744                           | \$ -                              | \$ (28,890)                     | \$ 2,022,854          |
| With donor restrictions    | 2,767,338                              | 5,080,726                         | 391,722                         | 8,239,786             |
| Total                      | <u>\$ 4,819,082</u>                    | <u>\$ 5,080,726</u>               | <u>\$ 362,832</u>               | <u>\$ 10,262,640</u>  |
| December 31, 2022:         |  |                                   |                                 |                       |
| Without donor restrictions | \$ 395,084                             | \$ -                              | \$ (36,375)                     | \$ 358,709            |
| With donor restrictions    | 1,894,138                              | (10,708,728)                      | 168,622                         | (8,645,968)           |
| Total                      | <u>\$ 2,289,222</u>                    | <u>\$ (10,708,728)</u>            | <u>\$ 132,247</u>               | <u>\$ (8,287,259)</u> |



## Scholarship America, Inc.

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Notes to Financial Statements  
December 31, 2023 and 2022

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.

### 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, 2023 and 2022.

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  
December 31, 2023 and 2022

The following tables present information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2023 and 2022:

|   | <b>2023</b>          |                      |                | <b>Total</b>          |
|---|----------------------|----------------------|----------------|-----------------------|
|   | <b>Level 1</b>       | <b>Level 2</b>       | <b>Level 3</b> |                       |
| Cash equivalents                                  | \$ 27,060,106        | \$ -                 | \$ -           | \$ 27,060,106         |
| Equity mutual funds                               | 32,776,462           | -                    | -              | 32,776,462            |
| Equities  | 1,542,896            | -                    | -              | 1,542,896             |
| Debt securities:                                  |                      |                      |                |                       |
| Fixed income mutual funds                         | 33,416,142           | -                    | -              | 33,416,142            |
| U.S. government securities                        | -                    | 29,716,750           | -              | 29,716,750            |
| Corporate bonds and notes                         | -                    | 6,152,590            | -              | 6,152,590             |
| Master limited partnership and other mutual funds | 2,797,070            | -                    | -              | 2,797,070             |
| Subtotal assets by valuation hierarchy            | <u>\$ 97,592,676</u> | <u>\$ 35,869,340</u> | <u>\$ -</u>    | 133,462,016           |
| Assets measured using NAV:                        |                      |                      |                |                       |
| Hedge funds                                       |                      |                      |                | <u>3,471,080</u>      |
| Total assets at fair value                        |                      |                      |                | <u>\$ 136,933,096</u> |

|   | <b>2022</b>           |                      |                | <b>Total</b>          |
|---|-----------------------|----------------------|----------------|-----------------------|
|   | <b>Level 1</b>        | <b>Level 2</b>       | <b>Level 3</b> |                       |
| Cash equivalents                                  | \$ 40,034,708         | \$ -                 | \$ -           | \$ 40,034,708         |
| Equity mutual funds                               | 31,603,437            | -                    | -              | 31,603,437            |
| Equities  | 1,668,829             | -                    | -              | 1,668,829             |
| Debt securities:                                  |                       |                      |                |                       |
| Fixed income mutual funds                         | 30,116,079            | -                    | -              | 30,116,079            |
| U.S. government securities                        | -                     | 4,703,593            | -              | 4,703,593             |
| Corporate bonds and notes                         | -                     | 11,092,026           | -              | 11,092,026            |
| Master limited partnership and other mutual funds | 1,885,510             | -                    | -              | 1,885,510             |
| Subtotal assets by valuation hierarchy            | <u>\$ 105,308,563</u> | <u>\$ 15,795,619</u> | <u>\$ -</u>    | 121,104,182           |
| Assets measured using NAV:                        |                       |                      |                |                       |
| Hedge fund  |                       |                      |                | <u>4,669,650</u>      |
| Total assets at fair value                        |                       |                      |                | <u>\$ 125,773,832</u> |

Total assets at fair value exclude certificates of deposit recorded at cost of \$262,511 and \$564,156 for the years ended December 31, 2023 and 2022, respectively.

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

Scholarship America measures the fair value for their investment in hedge funds (alternative investments) based on net asset value (NAV) as a practical expedient, without further adjustment, unless it is probable that the investment will be sold at a significantly different value. If not determined as of the Organization's measurement date, NAV is adjusted to reflect any significant events that would materially affect the security's value. Certain attributes that impact the security's fair value may not be reflected in NAV, including, but not limited to, the investor's ability to redeem the investment at the measurement date and unfunded purchase commitments. If the Organization sold all or a portion of its alternative investment, it is reasonably possible that the transaction value could differ significantly from the estimated fair value at the measurement date, because of the nature of the investments, changes in market conditions and the overall economic environment.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value as of December 31, 2023 and 2022:

| Investment Type             | Unfunded Commitments | 2023 Fair Value | 2022 Fair Value | Redemption Frequency | Redemption Notice Period | Remaining Life (Years) |
|-----------------------------|----------------------|-----------------|-----------------|----------------------|--------------------------|------------------------|
| Hedge fund:                 |                      |                 |                 |                      |                          |                        |
| Millennium International(a) | -                    | \$ 3,471,080    | \$ 4,669,650    | (b)                  | (b)                      | N/A                    |

(a) Millennium International is a multi-strategy, single manager, relative value hedge fund manager. The manager allocates capital across a variety of proprietary, internal trading teams who invest that capital in the relative value fundamental equity, quantitative trading, equity arbitrage, fixed income, commodity and other investment strategy sectors. The fund's investment objective is to produce equity like returns, with significantly less risk, while maintaining low correlations to the stock and bond markets.

(b) A Limited Partner may withdraw capital from Millennium International, Ltd. on a quarterly basis with 90-day notice. Once the liquidity request is received by Millennium International, Ltd, the investor is repaid over the subsequent 20-quarters, with 5 percent of their outstanding capital balance being distributed each quarter (i.e., as a result, a five year period is required to completely exit the fund).

### 6. Line of Credit Agreement

In September 2023, Scholarship America renewed a \$2,000,000 line of credit financing agreement with Bremer Bank, NA. The line of credit bears interest at the prime rate (as published from time to time in the Wall Street Journal) minus 0.25 percent with a floor of 3.0 percent. At December 31, 2023 the interest rate was 8.25% percent. 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, 2024 and it is management's intention to renew the facility. At December 31, 2023, 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 and tangible net worth ratios.

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 7. Long-Term Debt

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

|                                  | <u>2023</u>        | <u>2022</u>         |
|----------------------------------|--------------------|---------------------|
| Note payable to Bremer Bank      | \$ 2,249,662       | \$ 2,412,642        |
| Less current maturities          | <u>(2,249,662)</u> | <u>(157,600)</u>    |
| Long-term balance at December 31 | <u>\$ -</u>        | <u>\$ 2,255,042</u> |

Annual maturities of long-term debt at December 31, 2023 are as follows:

|                          |                     |
|--------------------------|---------------------|
| Year ending December 31: |                     |
| 2024                     | <u>\$ 2,249,662</u> |
|                          | <u>\$ 2,249,662</u> |

Scholarship America has a note payable through a term loan facility with Bremer Bank, NA. The term loan allowed 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 percent. The 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 \$955,043 at December 31, 2023. 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.

Scholarship America is actively working to sell the land and building that serves as the security interest for the note. Proceeds from the sale will be used to pay off the note.

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 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.

#### 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 for the years ended December 31, 2023 and 2022:

|                                  | 2023                       |                         |                      |
|----------------------------------|----------------------------|-------------------------|----------------------|
|                                  | Without Donor Restrictions | With Donor Restrictions | Total                |
| Donor-restricted endowment funds | \$ -                       | \$ 18,802,645           | \$ 18,802,645        |
| Board-designated endowment funds | 2,364,105                  | -                       | 2,364,105            |
|                                  | <u>\$ 2,364,105</u>        | <u>\$ 18,802,645</u>    | <u>\$ 21,166,750</u> |
| 2022                             |                            |                         |                      |
|                                  | Without Donor Restrictions | With Donor Restrictions | Total                |
| Donor-restricted endowment funds | \$ -                       | \$ 17,540,345           | \$ 17,540,345        |
| Board-designated endowment funds | 2,240,546                  | -                       | 2,240,546            |
|                                  | <u>\$ 2,240,546</u>        | <u>\$ 17,540,345</u>    | <u>\$ 19,780,891</u> |

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

Changes in endowment net assets for the years ended December 31, 2023 and 2022 are as follows:

|   | 2023                       |                         |                      |
|---|----------------------------|-------------------------|----------------------|
|   | Without Donor Restrictions | With Donor Restrictions | Total                |
| Endowment net assets, January 1, 2023                                   | \$ 2,240,546               | \$ 17,540,345           | \$ 19,780,891        |
| Investment return:  |                            |                         |                      |
| Investment income   | 123,559                    | 508,915                 | 632,474              |
| Net gain on investments   | -                          | 1,471,713               | 1,471,713            |
| Total investment return   | 123,559                    | 1,980,628               | 2,104,187            |
| Contributions   | -                          | 925                     | 925                  |
| Appropriation of endowment assets, satisfaction of program restrictions | -                          | (600,131)               | (600,131)            |
| Appropriation of endowment assets, spending policy                      | -                          | (99,952)                | (99,952)             |
| Change in donor restrictions  | -                          | (19,170)                | (19,170)             |
| Endowment net assets, December 31, 2023                                 | <u>\$ 2,364,105</u>        | <u>\$ 18,802,645</u>    | <u>\$ 21,166,750</u> |
|   |                            |                         |                      |
|   | 2022                       |                         |                      |
|   | Without Donor Restrictions | With Donor Restrictions | Total                |
| Endowment net assets, January 1, 2022                                   | \$ 2,206,062               | \$ 20,429,434           | \$ 22,635,496        |
| Investment return:  |                            |                         |                      |
| Investment income   | 34,484                     | 463,549                 | 498,033              |
| Net loss on investments   | -                          | (2,667,332)             | (2,667,332)          |
| Total investment return   | 34,484                     | (2,203,783)             | (2,169,299)          |
| Contributions   | -                          | 1,850                   | 1,850                |
| Appropriation of endowment assets, satisfaction of program restrictions | -                          | (580,222)               | (580,222)            |
| Appropriation of endowment assets, spending policy                      | -                          | (95,384)                | (95,384)             |
| Change in donor restrictions  | -                          | (11,550)                | (11,550)             |
| Endowment net assets, December 31, 2022                                 | <u>\$ 2,240,546</u>        | <u>\$ 17,540,345</u>    | <u>\$ 19,780,891</u> |

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 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, 2023 there were no underwater endowment investments. At December 31, 2022, three donor restricted funds with original gift values of \$1,408,743, fair market values of \$1,359,367 and deficiencies of \$49,376 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 percent of a 12-quarter moving average to be used for operations, as needed. During the years ended December 31, 2023 and 2022, \$99,952 and \$95,384 was released for operations, respectively.

## 9. Net Assets with Donor Restrictions

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

|  | <u>2023</u>           | <u>2022</u>          |
|--|-----------------------|----------------------|
| The portion of unexpended investment return generated from donor restricted endowment funds subject to UPMIFA available for scholarships | \$ 4,766,930          | \$ 3,155,614         |
| Gifts and other unexpended revenues and support available for:   |                       |                      |
| Scholarships   | 83,564,220            | 76,675,082           |
| Regions  | 62,189                | 59,717               |
| Other projects   | 1,232,404             | 870,520              |
| Endowment fund for:  |                       |                      |
| Scholarships   | 11,709,057            | 12,058,073           |
| Regions  | 1,336,658             | 1,336,658            |
| Other projects   | 990,000               | 990,000              |
| Nonendowment funds restricted in perpetuity for scholarships   | 146,670               | 150,990              |
|  | <u>\$ 103,808,128</u> | <u>\$ 95,296,654</u> |

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

### 10. Leases

Scholarship America has a real property lease for its corporate headquarters with an original term of approximately eleven years. This lease has an available renewal option which extend the terms of the underlying lease by five years. The real property lease requires monthly payments for variable operating expenses, which may include real estate taxes, insurance or other operating expenses. In 2022, Scholarship America negotiated a lease amendment for office space in Minneapolis, Minnesota. This amendment reduced the square footage under the lease, changed the base rental rates and extended the term of the lease.

Scholarship America has leases for office equipment which generally have original terms that vary up to five years. The office equipment leases have auto-renewal options for typically one year.

Right-of-use assets represent Scholarship America's right to use an underlying asset for the lease term, while lease liabilities represent Scholarship America's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of Scholarship America's leases include options to renew the lease. The exercise of lease renewal is at Scholarship America's sole discretion. Scholarship America regularly evaluates the renewals when they are reasonably certain of exercise, Scholarship America includes such options in the lease term. Additionally, upon adoption of the new standard, Scholarship America made judgments regarding lease terms for certain of its office equipment leases that were in month-to-month status or that contained auto-renewal clauses. Scholarship America estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, Scholarship America uses the rate implicit in the lease, or if not readily available, Scholarship America uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with Scholarship America's long-lived asset policy. Scholarship America reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

Scholarship America does not have any material leasing transactions with related parties.

The following table summarizes the finance and operating lease right-of-use assets as of December 31, 2023:

|                           | <b>Finance<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|---------------------------|---------------------------|-----------------------------|
| Right-of-use assets (net) | \$ 10,652                 | \$ 315,181                  |

The following table summarizes the finance and operating lease right-of-use assets as of December 31, 2022:

|                           | <b>Finance<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|---------------------------|---------------------------|-----------------------------|
| Right-of-use assets (net) | \$ 13,896                 | \$ 426,980                  |



## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

Below is a summary of expenses incurred pertaining to leases during the year ended December 31:

|                                     | <b>2023</b>       | <b>2022</b>       |
|-------------------------------------|-------------------|-------------------|
| Finance lease expense:              |                   |                   |
| Amortization of right-of-use assets | \$ 3,244          | \$ 2,325          |
| Interest on lease liabilities       | 319               | 277               |
| Operating lease expense             | \$ 115,532        | 136,635           |
| Variable lease expense              | 85,322            | 74,771            |
|                                     | <u>\$ 204,417</u> | <u>\$ 214,008</u> |

The finance lease right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 2.55 percent. The operating lease right-of-use assets and lease liabilities were calculated using a weighted average discount rate of 2.85 percent.

As of December 31, 2023 and 2022, the weighted average remaining lease term for finance leases was 3.28 years and 4.28, respectively. As of December 31, 2023 and 2022, the weighted average remaining lease term for operating leases was 3.28 years and 4.19 years, respectively.

The table below summarizes Scholarship America's scheduled future minimum lease payments for years ending after December 31, 2023:

|                             | <b>Finance<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|-----------------------------|---------------------------|-----------------------------|
| Year ending December 31:    |                           |                             |
| 2024                        | \$ 3,406                  | \$ 112,601                  |
| 2025                        | 3,406                     | 115,393                     |
| 2026                        | 3,406                     | 114,935                     |
| 2027                        | 1,113                     | 35,372                      |
|                             | <u>11,331</u>             | <u>378,301</u>              |
| Total lease payments        | 11,331                    | 378,301                     |
| Less present value discount | <u>(476)</u>              | <u>(17,120)</u>             |
| Total lease liabilities     | 10,855                    | 361,181                     |
| Less current portion        | <u>(3,167)</u>            | <u>(103,876)</u>            |
| Long-term lease liabilities | <u>\$ 7,688</u>           | <u>\$ 257,305</u>           |

## Scholarship America, Inc.

Notes to Financial Statements  
December 31, 2023 and 2022

The following table includes supplemental cash flow and noncash information related to the leases for the years ended December 31:

|   | <u>2023</u> | <u>2022</u> |
|---|-------------|-------------|
| Cash paid for amounts included in the measurement of lease liabilities: |             |             |
| Operating cash flows from operating leases                              | \$ 122,674  | \$ 147,332  |
| Operating cash flows from finance leases                                | 319         | 277         |
| Right-of-use assets obtained in exchange for lease liabilities:         |             |             |
| Operating leases  | \$ -        | \$ 551,817  |
| Finance leases  | -           | 16,221      |

### 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, 2023 and 2022 are as follows:

|  | <u>2023</u>           |               | <u>2022</u>           |               |
|--|-----------------------|---------------|-----------------------|---------------|
| Management and general   | \$ 9,234,576          | 4.96 %        | \$ 8,789,255          | 5.16 %        |
| Fundraising  | 2,223,161             | 1.19          | 2,383,571             | 1.40          |
| Total  | <u>\$ 11,457,737</u>  | <u>6.15 %</u> | <u>\$ 11,172,826</u>  | <u>6.56 %</u> |
| Revenues and support without donor restriction, excluding scholarships designated by donors for specific beneficiaries | <u>\$ 186,272,593</u> |               | <u>\$ 170,206,497</u> |               |

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

### 12. Subsequent Events

Scholarship America has evaluated subsequent events through June 6, 2024, which is the date that the financial statements were approved and available to be issued.

**Scholarship America, Inc.**

Families of Freedom Scholarship Fund - Schedule of Financial Position  
December 31, 2023

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**Assets****Current Assets**

Cash and cash equivalents \$ 226,986

**Investments**

6,865,157

Total assets

\$ 7,092,143

**Liabilities and Net Assets****Refundable Deposits**

\$ 467,187

**Net Assets**

With donor restrictions 6,624,956

Total liabilities and net assets

\$ 7,092,143

## Scholarship America, Inc.

Families of Freedom Scholarship Fund - Schedule of Activities  
Year Ended December 31, 2023

### Changes In Net Assets Without Donor Restrictions

Net assets released from restrictions:

Satisfaction of program restrictions \$ 2,692,694

Total revenues and support without donor restrictions 2,692,694

### Expenses

Program services:

Scholarship awards 2,608,732

Scholarship Management Services™ 22,644

Supporting services:

Management and general 60,604

Fundraising 714

Total expenses 2,692,694

Change in net assets without donor restrictions -

### Changes in Net Assets With Donor Restrictions

Contributions for scholarships 91,921

Transfer from customer deposit 1,400,000

Investment income, net 388,463

Net assets released from restrictions:

Satisfaction of program restrictions (2,692,694)

Change in net assets with donor restrictions (812,310)

Change in net assets (812,310)

**Net Assets, Beginning** 7,437,267

**Net Assets, Ending** \$ 6,624,957