

# **SCHOLARSHIP AMERICA, INC.**

FINANCIAL STATEMENTS  
Including Independent Auditors' Report

As of and For the Years Ended December 31, 2017 and 2016

# SCHOLARSHIP AMERICA, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Scholarship America, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Scholarship America, Inc. ("Scholarship America"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scholarship America as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other 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 in pages 21 through 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
May 23, 2018

**SCHOLARSHIP AMERICA, INC.**

STATEMENTS OF FINANCIAL POSITION  
As of December 31, 2017 and 2016

<b>ASSETS</b>	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 24,268,124	\$ 17,581,332
Accounts, interest and other receivables, net	1,799,308	1,833,252
Contributions receivable, net	1,453,013	1,324,374
Prepaid expenses and other assets	<u>274,663</u>	<u>385,887</u>
Total current assets	<u>27,795,108</u>	<u>21,124,845</u>
<b>CONTRIBUTIONS RECEIVABLE</b> , less current portion, net	571,848	623,238
<b>INVESTMENTS</b>	115,097,638	112,343,212
<b>CASH SURRENDER VALUE OF LIFE INSURANCE</b>	251,696	250,116
<b>PROPERTY AND EQUIPMENT</b>		
Land	329,436	329,436
Building and improvements	5,486,091	5,360,026
Furniture and equipment	4,337,778	4,278,332
Internally developed software	<u>739,200</u>	<u>-</u>
	10,892,505	9,967,794
Less accumulated depreciation	<u>(7,873,137)</u>	<u>(7,531,596)</u>
Property and equipment, net	3,019,368	2,436,198
<b>INTANGIBLE ASSETS</b>	2,069,062	2,069,062
Less accumulated amortization	<u>(906,965)</u>	<u>(703,407)</u>
Intangible assets, net	<u>1,162,097</u>	<u>1,365,655</u>
<b>TOTAL ASSETS</b>	<u>\$ 147,897,755</u>	<u>\$ 138,143,264</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 754,388	\$ 579,194
Accrued and other deferred liabilities	822,018	754,631
Current portion of long-term debt	-	168,191
Scholarships payable	11,260,668	10,172,296
Refundable deposits	<u>33,330,390</u>	<u>31,197,578</u>
Total Current Liabilities	46,167,464	42,871,890
<b>LONG-TERM DEBT</b>	<u>1,469,391</u>	<u>604,113</u>
Total Liabilities	<u>47,636,855</u>	<u>43,476,003</u>
<b>NET ASSETS</b>		
Unrestricted		
Designated for endowment	906,591	303,929
Undesignated	<u>7,565,479</u>	<u>6,469,066</u>
Total unrestricted	<u>8,472,070</u>	<u>6,772,995</u>
Temporarily restricted	78,085,063	74,403,213
Permanently restricted	<u>13,703,767</u>	<u>13,491,053</u>
Total net assets	<u>100,260,900</u>	<u>94,667,261</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 147,897,755</u>	<u>\$ 138,143,264</u>

**SCHOLARSHIP AMERICA, INC.**

STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>								
Total scholarships raised	155,591,409	\$ -	\$ -	\$ 155,591,409	\$ 155,520,573	\$ -	\$ -	\$ 155,520,573
Less scholarships designated by donors for specific beneficiaries	(67,127,319)	-	-	(67,127,319)	(61,615,614)	-	-	(61,615,614)
Scholarship revenue	88,464,090	-	-	88,464,090	93,904,959	-	-	93,904,959
Program management fees	13,025,639	-	-	13,025,639	13,163,672	-	-	13,163,672
Investment income	291,486	7,936,901	-	8,228,387	327,572	5,824,702	-	6,152,274
Contributions and project grants	1,255,664	15,007,830	212,714	16,476,208	1,051,605	4,692,761	38,311	5,782,677
Other income	116,081	-	-	116,081	82,625	-	-	82,625
Dollars for Scholars® and other student programs	768,566	-	-	768,566	486,493	-	-	486,493
Revenues and support	103,921,526	22,944,731	212,714	127,078,971	109,016,926	10,517,463	38,311	119,572,700
Change in donor restrictions	-	(50,240)	-	(50,240)	2,695	(50,997)	(14,040)	(62,342)
Net assets released from restrictions								
Program management fees released	-	(536,356)	-	(536,356)	-	(477,832)	-	(477,832)
Satisfaction of program restrictions	18,676,285	(18,676,285)	-	-	17,107,191	(17,107,191)	-	-
Total revenues and support	122,597,811	3,681,850	212,714	126,492,375	126,126,812	(7,118,557)	24,271	119,032,526
<b>EXPENSES</b>								
Program services								
Total scholarship distributions	173,400,026	-	-	173,400,026	171,725,189	-	-	171,725,189
Less scholarships designated by donors for specific beneficiaries	(67,127,319)	-	-	(67,127,319)	(61,615,614)	-	-	(61,615,614)
Scholarship awards	106,272,707	-	-	106,272,707	110,109,575	-	-	110,109,575
Program management	6,743,492	-	-	6,743,492	7,102,782	-	-	7,102,782
Dollars for Scholars® and other student programs	920,122	-	-	920,122	952,531	-	-	952,531
Other programs	631,852	-	-	631,852	546,682	-	-	546,682
Supporting services								
General and administrative	4,449,384	-	-	4,449,384	3,765,727	-	-	3,765,727
Fundraising	1,881,179	-	-	1,881,179	1,618,016	-	-	1,618,016
Total expenses	120,898,736	-	-	120,898,736	124,095,313	-	-	124,095,313
Change in net assets	1,699,075	3,681,850	212,714	5,593,639	2,031,499	(7,118,557)	24,271	(5,062,787)
Net Assets - Beginning of Period	6,772,995	74,403,213	13,491,053	94,667,261	4,741,496	81,521,770	13,466,782	99,730,048
<b>NET ASSETS - END OF PERIOD</b>	<u>8,472,070</u>	<u>\$ 78,085,063</u>	<u>\$ 13,703,767</u>	<u>\$ 100,260,900</u>	<u>\$ 6,772,995</u>	<u>\$ 74,403,213</u>	<u>\$ 13,491,053</u>	<u>\$ 94,667,261</u>

**SCHOLARSHIP AMERICA, INC.**

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,593,639	\$ (5,062,787)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	341,541	384,709
Amortization of intangibles	203,558	203,558
Unrealized gains on investments	(4,203,025)	(4,857,323)
Realized (gains) losses on sale of investments	(1,982,262)	1,107,068
Scholarships distributed and designated by donors for specific beneficiaries	(67,127,319)	(61,615,614)
Scholarships raised and designated by donors for specific beneficiaries	67,127,319	61,615,614
Permanently restricted contributions	(212,714)	(38,311)
Change in:		
Accounts, interest and other receivables	33,944	15,791
Contributions receivable, net	(77,249)	412,394
Prepaid expenses and other assets	111,224	(1,261)
Accounts payable	110,400	(75,267)
Scholarships payable	1,088,372	798,553
Accrued and other deferred liabilities	67,387	(54,231)
Refundable deposits	2,132,812	5,596,785
Net Cash Flows From Operating Activities	3,207,627	(1,570,322)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(36,334,239)	(37,670,445)
Proceeds from sale of investments	39,765,100	47,940,308
Cash surrender value of life insurance	(1,580)	2,581
Purchase of property and equipment	(859,917)	(86,532)
Net Cash Flows From Investing Activities	2,569,364	10,185,912
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for endowment	212,714	38,311
Proceeds from long-term debt	750,000	-
Repayments of long-term debt	(52,913)	(165,441)
Proceeds from bank line of credit	-	650,000
Repayments of bank line of credit	-	(650,000)
Net Cash Flows From Financing Activities	909,801	(127,130)
<b>Net Change in Cash and Cash Equivalents</b>	6,686,792	8,488,460
CASH AND CASH EQUIVALENTS - Beginning of Year	17,581,332	9,092,872
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 24,268,124</b>	<b>\$ 17,581,332</b>
Supplemental cash flow information		
Cash paid for interest	\$ 24,235	\$ 19,677
Noncash investing and financing activities		
Property and equipment acquired through accounts payable	\$ 64,794	\$ -
Refinanced note payable	\$ 694,101	\$ -

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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#### **Organization**

Scholarship America, Inc. ("Scholarship America") is a nonprofit corporation organized under the laws of the Commonwealth of Massachusetts to make postsecondary educational achievement possible for anyone, regardless of financial status, through scholarships and other support. Until January 2003, the corporation was known as Citizens' Scholarship Foundation of America. Scholarship America designs and manages 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:

**Unrestricted Net Assets** - This classification contains net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - This classification includes net assets that have been restricted by donors for specific purposes or are not available for use until a specific time. These consist primarily of contributions, project grants, and investment income of temporarily restricted net assets and return on donor-restricted endowments not yet appropriated for expenditure under Scholarship America's endowment spending policy.

**Permanently Restricted Net Assets** - This classification includes net assets that have been restricted by donors who stipulate the resources be maintained permanently by Scholarship America.



# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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

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#### ***Accounting for Scholarships***

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.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash held in bank accounts and temporary investments with original maturities of less than three months when purchased. Scholarship America maintains cash and cash equivalent accounts, which at times, may exceed federally insured limits. Scholarship America has not experienced any losses from maintaining cash and cash equivalent accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash and cash equivalent accounts.

#### ***Accounts Receivable***

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

#### ***Investments***

Investments, excluding 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.

#### ***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. During 2017, Scholarship America changed its capitalization policy of property and equipment additions to capitalize property and equipment in excess of \$1,500 from \$600. Depreciation is provided using the straight-line method over estimated useful lives as follows:

	Years
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.

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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

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#### ***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 2018 through 2021 will be \$203,558.

#### ***Contributed Services***

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

#### ***Contributions***

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

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

Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When a donor-imposed time restriction expires, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restrictions on the statements of activities.

Contributions of land, buildings, and equipment are recorded as unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Scholarship America reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

#### ***Scholarships Payable and Refundable Deposits***

Scholarships payable represent awards that have been made that Scholarship America has not yet distributed to the beneficiaries. Refundable deposits represent amounts held by Scholarship America for scholarship programs that, under terms of the program agreement, are refundable or revocable at the discretion of the resource provider. Refundable deposits also include amounts held by Scholarship America in connection with agreements that have stipulations that the assets be passed on to specific beneficiaries.

#### ***Program Management Fees***

Program management fees are recognized as revenue as the fees are earned. Historically, approximately two-thirds of the program management fees are recognized as the program is developed and applications are processed, with the remaining one-third being recognized after final scholarship distributions have been made.

#### ***Grants***

Restricted grants are recognized as revenue and support only to the extent that expenses have been incurred during the period for the purpose specified in the grant.

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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

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#### ***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 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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Income Tax Status***

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

Scholarship America follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by Scholarship America for uncertain tax positions as of December 31, 2017 and 2016.

#### ***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 year ended December 31, 2017 was initially 1.5% and then was increased to 3% on October 1, 2017. The matching contribution remained at 3% for the remainder of fiscal 2017. For the year ended December 31, 2016 the matching contribution was temporarily suspended. Scholarship America's contributions to the plan totaled \$124,745 and \$0 for the years ended December 31, 2017 and 2016, respectively.

#### ***New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. Scholarship America is assessing the impact this new standard will have on its financial statements.

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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

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In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. For non-public entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. Scholarship America adopted the guidance in 2017. ASU 2015-03 is to be applied retrospectively, and as a result, the guidance was retrospectively applied to the fiscal 2016 disclosure. The adoption of the standard did not have a significant impact on Scholarship America's statement of financial position or results of operations.

In February 2016, FASB issued 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, 2019. Early application is permitted. 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.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Scholarship America is assessing the impact this standard will have on its financial statements.

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### NOTE 2 - CONTRIBUTIONS RECEIVABLE

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Contributions receivable are to be collected during the following periods at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,529,488	\$ 1,394,078
One to five years	651,000	702,750
Greater than five years	<u>-</u>	<u>-</u>
	2,180,488	2,096,828
Less:		
Discounts for the time value of money	49,055	46,710
Allowance for uncollectible contributions	<u>106,572</u>	<u>102,506</u>
	<u>\$ 2,024,861</u>	<u>\$ 1,947,612</u>

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

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

### NOTE 3 - INVESTMENTS AND INVESTMENT INCOME

Investments consisted of the following at December 31:

	2017	2016
Cash equivalents	\$ 4,417,691	\$ 1,554,832
U.S. Treasury bonds and notes	100,355	203,187
U.S. government securities	3,632,994	3,647,694
Equity mutual funds	32,675,683	28,678,396
Fixed income mutual funds	42,848,432	46,635,885
Corporate bonds and notes	19,525,623	19,641,217
Master limited partnership and other mutual funds	5,939,943	5,917,915
Hedge funds	5,956,917	6,064,086
	\$ 115,097,638	\$ 112,343,212

Investment income (loss) is recorded in the statements of activities and comprises the following for the years ended December 31, 2017 and 2016:

	Interest and Dividends	Unrealized Gain	Realized Gain (Loss)	Total
December 31, 2017				
Unrestricted	\$ 290,860	\$ 906	\$ (280)	\$ 291,486
Temporarily restricted	1,752,240	4,202,119	1,982,542	7,936,901
Total	\$ 2,043,100	\$ 4,203,025	\$ 1,982,262	\$ 8,228,387
December 31, 2016				
Unrestricted	\$ 273,933	\$ 51,093	\$ 2,546	\$ 327,572
Temporarily restricted	2,128,086	4,806,230	(1,109,614)	5,824,702
Total	\$ 2,402,019	\$ 4,857,323	\$ (1,107,068)	\$ 6,152,274

### NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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### NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

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

Except for the implementation of ASU 2015-07, there have been no changes in the techniques and inputs used as of December 31, 2017 and 2016.

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, 2017 and 2016

### NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 4,417,691	\$ -	\$ -	\$ 4,417,691
Equity mutual funds	32,675,683	-	-	32,675,683
Debt securities				
Fixed income mutual funds	42,848,432	-	-	42,848,432
U.S. Treasury bonds and notes	-	100,355	-	100,355
U.S. government securities	-	3,632,994	-	3,632,994
Corporate bonds and notes	-	19,525,623	-	19,525,623
Master limited partnership and other mutual funds	5,939,943	-	-	5,939,943
Subtotal assets by valuation hierarchy	\$ 85,881,749	\$ 23,258,972	\$ -	109,140,721
Assets measured using NAV				
Hedge funds				5,956,917
Total assets at fair value				\$ 115,097,638

The following table presents information about Scholarship America's assets measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 1,554,832	\$ -	\$ -	\$ 1,554,832
Equity mutual funds	28,678,396	-	-	28,678,396
Debt securities				
Fixed income mutual funds	46,635,885	-	-	46,635,885
U.S. Treasury bonds and notes	-	203,187	-	203,187
U.S. government securities	-	3,647,694	-	3,647,694
Corporate bonds and notes	-	19,641,217	-	19,641,217
Master limited partnership and other mutual funds	5,917,915	-	-	5,917,915
Subtotal assets by valuation hierarchy	\$ 82,787,028	\$ 23,492,098	\$ -	106,279,126
Assets measured using NAV				
Hedge funds				6,064,086
Total assets at fair value				\$ 112,343,212

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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### NOTE 4 - FAIR VALUE MEASUREMENTS (cont.)

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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, 2017 and 2016:

<u>Investment Type</u>	<u>Unfunded Commitments</u>	<u>2017 Fair Value</u>	<u>2016 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.	\$ -	\$ 5,956,917	\$ 6,064,086	(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.

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### NOTE 5 - LINE OF CREDIT AGREEMENT

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In August 2017, Scholarship America established a new \$1,000,000 bank line of credit financing agreement with Bremer Bank, NA. This line replaced a previous un-drawn line of credit financing agreement held at a different financial institution. 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, 2017 the interest rate was 4.25%. 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, 2018 and it is management's intention to renew the facility. At December 31, 2017, 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 is in compliance with the requirements at December 31, 2017.



# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

### NOTE 6 - LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
Note payable to Bremer Bank	\$ 1,469,391	\$ -
Note payable to First National Bank Minnesota	-	772,304
Less current maturities	-	<u>(168,191)</u>
Balance at December 31	<u>\$ 1,469,391</u>	<u>\$ 604,113</u>

Aggregate annual maturities of long-term debt at December 31, 2017 are as follows:

2018	\$ -
2019	35,834
2020	49,658
2021	51,917
2022	54,396
2023 and beyond	<u>1,277,586</u>
	<u>\$ 1,469,391</u>

In August 2017, Scholarship America refinanced an existing note payable through a new term loan facility with Bremer Bank, NA. The new term loan allows for borrowing of up to \$3,800,000 over an eighteen month draw period. During this initial draw period, only monthly interest payments are required. The term loan carries a fixed interest rate of 4.09%. At the end of the 18 month draw period, 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. 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 in compliance with the requirements at December 31, 2017. Proceeds of the note were used to repay an existing note payable and to fund technology investments.

The note payable to First National Bank Minnesota had variable interest and was payable in semi-annual installments through September 2028. This note payable was fully repaid in August 2017.

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

### NOTE 7 - ENDOWMENT FUNDS

Scholarship America's endowment consists of approximately 35 individual funds established for a variety of purposes including both endowment funds restricted by the donor and funds designated by the board of trustees to function as endowment. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law*

The Board of Trustees of Scholarship America has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Scholarship America classifies as permanently restricted net assets (1) the original value of the initial gift donated to the permanent endowment; (2) the original value of subsequent gifts donated to the permanent endowment fund; and (3) any earnings and gains/losses required by the donor to be added to the original value of the permanent endowment fund. The remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset composition by type of fund consists of the following as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,487,145	\$ 13,540,472	\$ 17,027,617
Board-designated endowment funds	906,591	-	-	906,591
	\$ 906,591	\$ 3,487,145	\$ 13,540,472	\$ 17,934,208

Endowment net asset composition by type of fund consists of the following as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (906)	\$ 2,261,791	\$ 13,332,031	\$ 15,592,916
Board-designated endowment funds	303,929	-	-	303,929
	\$ 303,023	\$ 2,261,791	\$ 13,332,031	\$ 15,896,845

# SCHOLARSHIP AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

### NOTE 7 - ENDOWMENT FUNDS (cont.)

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2017	\$ 303,023	\$ 2,261,791	\$ 13,332,031	\$ 15,896,845
Investment return				
Investment income	2,662	361,123	-	363,785
Net gain on investments	906	1,563,121	-	1,564,027
Total investment return	3,568	1,924,244	-	1,927,812
Contributions	-	-	208,441	208,441
Return of endowment assets - operations	600,000	-	-	600,000
Appropriation of endowment assets - satisfaction of program restrictions	-	(600,492)	-	(600,492)
Appropriation of endowment assets - spending policy	-	(85,688)	-	(85,688)
Change in donor restrictions	-	(12,710)	-	(12,710)
Endowment net assets, December 31, 2017	\$ 906,591	\$ 3,487,145	\$ 13,540,472	\$ 17,934,208
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ 250,835	\$ 1,943,523	\$ 13,307,058	\$ 15,501,416
Investment return				
Investment income	1,095	375,938	-	377,033
Net gain on investments	51,093	554,179	-	605,272
Total investment return	52,188	930,117	-	982,305
Contributions	-	-	39,013	39,013
Appropriation of endowment assets - satisfaction of program restrictions	-	(543,709)	-	(543,709)
Appropriation of endowment assets - spending policy	-	(82,180)	-	(82,180)
Change in donor restrictions	-	14,040	(14,040)	-
Endowment net assets, December 31, 2016	\$ 303,023	\$ 2,261,791	\$ 13,332,031	\$ 15,896,845

#### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires Scholarship America to retain as a fund of perpetual duration. There were deficiencies of \$0 and \$906 that are reported in unrestricted net assets as of December 31, 2017 and 2016, respectively.

# SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2017 and 2016

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## NOTE 7 - ENDOWMENT FUNDS (cont.)

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### ***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 board-designated endowment, previously established for the Northeast region is invested in a balanced indexed portfolio. The board of trustees allows 5% of a 12-quarter moving average to be used for operations, as needed. During the years ended December 31, 2017 and 2016, \$85,668 and \$82,180 was released for operations, respectively.

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## NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
The portion of unexpended investment return generated from donor restricted endowment funds subject to UPMIFA available for scholarships	\$ 3,487,145	\$ 2,261,791
Gifts and other unexpended revenues and support available for:		
Scholarships	73,743,840	71,616,412
Regions	81,474	106,603
Other projects	<u>772,604</u>	<u>418,407</u>
	<u>\$ 78,085,063</u>	<u>\$ 74,403,213</u>

# SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2017 and 2016

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## NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (cont.)

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

	<u>2017</u>	<u>2016</u>
Endowment fund for:		
Scholarships	\$ 11,213,814	\$ 10,803,512
Regions	1,336,658	1,538,519
Other projects	<u>990,000</u>	<u>990,000</u>
	13,540,472	13,332,031
Non endowment funds for scholarships	<u>163,295</u>	<u>159,022</u>
	<u>\$ 13,703,767</u>	<u>\$ 13,491,053</u>

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## NOTE 9 - LEASES

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Rental expense for office space was \$323,369 and \$294,637 for the years ended December 31, 2017 and 2016, respectively. Lease agreements having an original term of more than one year expire on various dates through calendar year 2024. Minimum annual payments under terms of these operating leases are as follows:

Year ending December 31:		
2018		\$ 250,493
2019		255,671
2020		147,914
2021		150,414
2022		152,913
2023 and thereafter		<u>353,062</u>
		<u>\$ 1,310,467</u>

# SCHOLARSHIP AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2017 and 2016

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## NOTE 10 - SUPPORTING SERVICES EXPENSE RATIOS

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Scholarship America's supporting services expense ratios as a percentage of unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries, for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>		<u>2016</u>	
General and administration	\$ 4,449,384	3.63%	\$ 3,765,727	2.99%
Fundraising	<u>1,881,179</u>	<u>1.53%</u>	<u>1,618,016</u>	<u>1.28%</u>
Total	<u>\$ 6,330,563</u>	<u>5.16%</u>	<u>\$ 5,383,743</u>	<u>4.27%</u>
Unrestricted revenues and support, excluding scholarships designated by donors for specific beneficiaries	<u>\$ 122,597,811</u>		<u>\$ 126,126,812</u>	

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

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## NOTE 11 - SUBSEQUENT EVENTS

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Scholarship America has evaluated subsequent events through May 23, 2018, which is the date that the financial statements were approved and available to be issued.

**SCHOLARSHIP AMERICA, INC.**FAMILIES OF FREEDOM SCHOLARSHIP FUND  
SCHEDULE OF FINANCIAL POSITION  
As of December 31, 2017

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<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 405,467
Contributions receivable, net	<u>570,000</u>
	<u>975,467</u>
<b>CONTRIBUTIONS RECEIVABLE</b> , less current portion, net	129,354
<b>INVESTMENTS</b>	<u>42,784,143</u>
<b>TOTAL ASSETS</b>	<u>\$ 43,888,964</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>REFUNDABLE DEPOSITS</b>	\$ 6,859,376
<b>NET ASSETS</b>	
Temporarily restricted	<u>37,029,588</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 43,888,964</u>

**SCHOLARSHIP AMERICA, INC.**FAMILIES OF FREEDOM SCHOLARSHIP FUND  
SCHEDULE OF ACTIVITIES

For the Year Ended December 31, 2017

**CHANGES IN UNRESTRICTED NET ASSETS**

Net assets released from restrictions	
Satisfaction of program restrictions	\$ 12,872,953
Total unrestricted revenues and support	12,872,953

**EXPENSES**

Program services:	
Scholarship awards	12,370,699
Scholarship Management Services™	50,202
Supporting services:	
General and administrative	451,842
Fundraising	210
Total expenses	<u>12,872,953</u>

Change in unrestricted net assets	-
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## Changes in temporarily restricted net assets

Contributions for scholarships	739,593
Investment income	3,635,632
Net assets released from restrictions	
Satisfaction of program restrictions	<u>(12,872,953)</u>
Change in temporarily restricted net assets	<u>(8,497,728)</u>

Change in net assets	(8,497,728)
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Net Assets - Beginning of Period	<u>45,527,316</u>
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<b>NET ASSETS - END OF PERIOD</b>	<b><u>\$ 37,029,588</u></b>
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## SCHOLARSHIP AMERICA, INC.

SCHEDULE OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2017

	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	\$ 106,272,707	\$ -	\$ -	\$ -	\$ -	\$ 106,272,707	\$ -	\$ -	\$ 106,272,707
Personnel costs	-	4,842,243	719,681	272,959	101,797	5,936,680	2,706,048	1,256,771	9,899,499
Meetings and travel	-	240,530	25,190	17,769	25,235	308,724	134,405	189,428	632,557
Printing	-	49,995	181	5,457	2,695	58,328	3,964	13,958	76,250
Professional services	-	426,587	34,523	41,292	19,925	522,327	873,939	206,507	1,602,773
IT licenses/hosting	-	108,097	-	-	-	108,097	67,606	-	175,703
Publicity and promotion	-	65,785	74,520	7,829	1,152	149,286	199,409	5,945	354,640
Postage	-	146,902	496	2,165	252	149,815	5,313	2,132	157,260
Occupancy	-	157,799	10,011	-	99,490	267,300	178,267	93,050	538,617
Interest and other financing fees	-	52,013	4,887	-	393	57,293	19,314	5,981	82,588
Insurance	-	88,182	12,854	1,296	1,497	103,829	38,165	15,166	157,160
Office expenses	-	149,281	19,538	2,205	13,217	184,241	75,697	29,074	289,012
Depreciation and amortization	-	400,005	15,838	-	384	416,227	95,609	33,263	545,099
Miscellaneous	-	16,073	2,403	551	14,292	33,319	51,648	29,904	114,871
<b>Total Expenses</b>	<b>\$ 106,272,707</b>	<b>\$ 6,743,492</b>	<b>\$ 920,122</b>	<b>\$ 351,523</b>	<b>\$ 280,329</b>	<b>\$ 114,568,173</b>	<b>\$ 4,449,384</b>	<b>\$ 1,881,179</b>	<b>\$ 120,898,736</b>