

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

REVIEWED FINANCIAL STATEMENTS

**Year Ended December 31, 2014
(With Comparative Totals for 2013)**

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
The Scholarship Foundation of St. Louis

We have reviewed the accompanying statement of assets, liabilities and net assets - modified cash basis of The Scholarship Foundation of St. Louis (the Foundation) (a Missouri not-for-profit corporation) as of December 31, 2014, and the related statements of revenues and expenses and changes in net assets, functional expenses, and cash flows, all presented on a modified cash basis, for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Foundation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion. The prior year summarized comparative information has been derived from the Foundation's financial statements for the year ended December 31, 2013 and, in our report dated February 25, 2014, stated that based on our procedures, we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with the modified cash basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the modified cash basis of accounting, as described in Note 1.

UHY LLP

St. Louis, Missouri
March 5, 2015

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2014 (With Comparative Totals for 2013)

	December 31,	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,492,720	\$ 1,218,750
Restricted funds for Centennial Scholars Program	30,401	-
Unconditional promises-to-give	73,183	75,721
Student loan receivables - current	1,950,000	2,000,000
Interest receivable	5,794	4,990
Investments	-	442,000
Prepaid expenses	12,261	11,171
Total current assets	<u>3,564,359</u>	<u>3,752,632</u>
LONG-TERM ASSETS		
Restricted funds for Future Forward Program	21,500	-
Unconditional promises-to-give	163,640	66,419
Student loan receivables	23,238,740	22,112,560
Investments	7,707,001	7,752,594
Property and equipment	2,176,362	2,366,102
Total long-term assets	<u>33,307,243</u>	<u>32,297,675</u>
Total assets	<u>\$ 36,871,602</u>	<u>\$ 36,050,307</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 270,538	\$ 301,170
Amounts held for collaborative programming	207,171	187,627
Unconditional promises-to-give for Future Forward Program	61,500	-
Annuities payable	29,218	29,218
Total current liabilities	<u>568,427</u>	<u>518,015</u>
ANNUITIES PAYABLE - LONG-TERM	<u>116,765</u>	<u>124,153</u>
Total liabilities	<u>685,192</u>	<u>642,168</u>
NET ASSETS		
Unrestricted		
Undesignated, available for operations	3,193,189	3,725,785
Net investment in student loans	25,188,740	24,112,560
Net investment in property and equipment	2,176,362	2,366,102
Board designated reserves	775,000	765,000
	<u>31,333,291</u>	<u>30,969,447</u>
Temporarily restricted	1,274,720	955,388
Permanently restricted	3,578,399	3,483,304
Total net assets	<u>36,186,410</u>	<u>35,408,139</u>
Total liabilities and net assets	<u>\$ 36,871,602</u>	<u>\$ 36,050,307</u>

See notes to financial statements and independent accountant's review report.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

Year Ended December 31, 2014 (With Comparative Totals for 2013)

	Years Ended December 31,				2013 (Comparative Totals Only)
	2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
PUBLIC SUPPORT AND REVENUE					
Public support					
Gifts and grants	\$ 672,791	\$ 278,401	\$ 95,095	\$ 1,046,287	\$ 867,790
Bequests	300,000	-	-	300,000	300,000
Tributes	59,157	-	-	59,157	35,484
Contributions	463,647	-	-	463,647	499,554
	<u>1,495,595</u>	<u>278,401</u>	<u>95,095</u>	<u>1,869,091</u>	<u>1,702,828</u>
Revenue					
Shop sales, net of cost of shop operations of \$1,870,387 and \$1,787,620 for the years ended December 31, 2014 and 2013, respectively	1,164,996	-	-	1,164,996	1,420,693
Interest and dividends	9,637	209,419	-	219,056	189,465
Realized and unrealized gains on investments	24,231	79,105	-	103,336	789,595
Losses from annuities and trusts	(3,322)	(17,440)	-	(20,762)	(3,777)
Other	415	-	-	415	439
	<u>1,195,957</u>	<u>271,084</u>	<u>-</u>	<u>1,467,041</u>	<u>2,396,415</u>
Net assets released from restrictions	<u>230,153</u>	<u>(230,153)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>2,921,705</u>	<u>319,332</u>	<u>95,095</u>	<u>3,336,132</u>	<u>4,099,243</u>
EXPENSES					
Program services, excluding student loans awarded of \$3,216,218 and \$3,218,728 for the years ended December 31, 2014 and 2013, respectively	1,920,362	-	-	1,920,362	1,620,516
Supporting services					
Management and general	343,145	-	-	343,145	320,508
Fund raising	294,354	-	-	294,354	288,876
Total expenses	<u>2,557,861</u>	<u>-</u>	<u>-</u>	<u>2,557,861</u>	<u>2,229,900</u>
CHANGES IN NET ASSETS	<u>363,844</u>	<u>319,332</u>	<u>95,095</u>	<u>778,271</u>	<u>1,869,343</u>
NET ASSETS, Beginning	<u>30,969,447</u>	<u>955,388</u>	<u>3,483,304</u>	<u>35,408,139</u>	<u>33,538,796</u>
NET ASSETS, Ending	<u>\$ 31,333,291</u>	<u>\$ 1,274,720</u>	<u>\$ 3,578,399</u>	<u>\$ 36,186,410</u>	<u>\$ 35,408,139</u>

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
Year Ended December 31, 2014 (With Comparative Totals for 2013)

	Years Ended December 31,				(Comparative Totals Only)
	2014			2013	
	Program Services	Supporting Services		Total	
	Management and General	Fund Raising			
Salaries and Wages	\$ 535,883	\$ 146,277	\$ 144,009	\$ 826,169	\$ 853,892
Payroll Taxes and Employee Benefits	<u>95,095</u>	<u>25,015</u>	<u>25,210</u>	<u>145,320</u>	146,906
	<u>630,978</u>	<u>171,292</u>	<u>169,219</u>	<u>971,489</u>	1,000,798
Collection Costs	8,942	-	-	8,942	9,149
Community Programs	102,573	-	-	102,573	58,746
Depreciation	47,470	12,957	12,756	73,183	64,166
Information Technology	20,766	15,418	14,501	50,685	80,820
Insurance	9,263	2,529	2,489	14,281	13,119
Meetings	19,525	933	239	20,697	14,509
Miscellaneous and Equipment Rental	33,728	11,808	4,234	49,770	37,742
Occupancy	16,381	4,468	4,401	25,250	20,118
Office Expenses	14,917	6,198	9,917	31,032	32,931
Printing	-	16,201	22,467	38,668	25,296
Professional Fees	25,844	92,009	44,879	162,732	130,384
Provision for Uncollectible Loans	170,397	-	-	170,397	142,039
Repair and Maintenance	18,839	5,143	5,063	29,045	24,750
Service Charges	4,189	4,189	4,189	12,567	11,958
Grants Awarded	<u>796,550</u>	<u>-</u>	<u>-</u>	<u>796,550</u>	<u>563,375</u>
TOTAL EXPENSES	<u>1,920,362</u>	<u>343,145</u>	<u>294,354</u>	<u>2,557,861</u>	2,229,900
Student Loans Awarded	<u>3,216,218</u>	<u>-</u>	<u>-</u>	<u>3,216,218</u>	<u>3,218,728</u>
TOTAL EXPENSES AND LOANS AWARDED - 2014	<u>\$ 5,136,580</u>	<u>\$ 343,145</u>	<u>\$ 294,354</u>	<u>\$ 5,774,079</u>	
PERCENTAGE - 2014	<u>89.0</u>	<u>5.9</u> %	<u>5.1</u> %	<u>100.0</u> %	
TOTAL EXPENSES AND LOANS AWARDED - 2013	<u>\$ 4,839,244</u>	<u>\$ 320,508</u>	<u>\$ 288,876</u>		<u>\$ 5,448,628</u>
PERCENTAGE - 2013	<u>88.8</u> %	<u>5.9</u> %	<u>5.3</u> %		<u>100.0</u> %

See notes to financial statements and independent accountant's review report.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
Year Ended December 31, 2014 (With Comparative Totals for 2013)

	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 778,271	\$ 1,869,343
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Gains on investments	(103,336)	(789,595)
Losses from annuities and trusts	20,762	3,777
Depreciation	197,942	199,452
Provision for uncollectible loans	170,397	142,039
Permanently restricted contributions	(95,095)	(284,508)
Changes in		
Restricted funds for Centennial Scholars Program	(30,401)	-
Unconditional promises-to-give	(94,683)	(5,766)
Student loan receivables		
New loans awarded	(3,216,218)	(3,218,728)
Loans repaid	1,969,641	1,927,013
Interest receivable	(804)	612
Prepaid expenses	(1,090)	(471)
Restricted funds for Future Forward Program	(21,500)	-
Accounts payable and accrued expenses	(30,632)	41,095
Amounts held for collaborative programming	19,544	77,191
Unconditional promises-to-give for Future Forward Program	61,500	-
Annuities payable	(28,150)	(27,721)
Net cash used by operating activities	<u>(403,852)</u>	<u>(66,267)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(8,202)	(161,503)
Purchases of investments	(1,324,071)	(4,732,013)
Proceeds from sale of investments	1,915,000	4,615,542
Net cash provided (used) by investing activities	<u>582,727</u>	<u>(277,974)</u>
FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	95,095	284,508
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	273,970	(59,733)
CASH AND CASH EQUIVALENTS, Beginning	1,218,750	1,278,483
CASH AND CASH EQUIVALENTS, Ending	\$ 1,492,720	\$ 1,218,750

See notes to financial statements and independent accountant's review report.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Foundation's financial statements. These accounting policies conform to the modified cash basis of accounting.

History and Business Activity

The Scholarship Foundation of St. Louis (the Foundation) is a not-for-profit organization founded in 1920. The Foundation provides access to post-secondary education to members of the community who otherwise would not have the financial means to fulfill their educational goals. This mission is accomplished by awarding interest-free loans and grants to students, as well as providing guidance and planning assistance. Approximately 11,200 students have been awarded more than \$65,200,000 in interest-free loans and more than \$5,200,000 in grants and paid internships since the Foundation was established. One in six donors is a former Foundation recipient.

The Foundation operates ScholarShop, an upscale resale shop with locations in Clayton and Webster Groves, Missouri. ScholarShop was established for the sole purpose of providing funds for student loans. The general public donates clothing, accessories, and collectibles that are sold back to the general public through these retail shops.

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Financial Statement Presentation

The Foundation primarily uses the accrual basis of accounting. The modified cash basis of accounting is used on certain revenues and expenses in which revenues are recognized when received rather than earned and expenses are recognized when paid rather than when incurred. The following transactions are recorded on the modified cash basis:

- The Foundation does not record the value for its inventory of donated merchandise sold or held for resale in ScholarShop.
- The Foundation does not discount long-term student loan receivables to present value amounts.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

The Foundation's resources are classified for accounting and reporting purposes into three asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories is as follows:

Unrestricted Net Assets - Includes resources available for support of operations, which have no donor imposed restrictions. All contributions are considered to be available for unrestricted use and available for operations unless specifically restricted by the donor. The Foundation's unrestricted net assets are presented in the accompanying statements of assets, liabilities and net assets - modified cash basis as follows:

- Undesignated: represents resources available for current operations
- Investment in student loans: represents outstanding student loan receivables
- Investment in property and equipment: represents the net book value of property and equipment
- Board designated reserves: represents resources that the governing board has designated unrestricted net assets to be reserved for a) operating expenses, b) program commitments to renewing students, and c) repair, maintenance and capital expenditures.

Temporarily Restricted Net Assets - Represent those net assets whose use has been limited by donor-imposed stipulations that either specify expenditures or expire by passage of time. Net assets in this classification are primarily related to time and program restrictions.

Permanently Restricted Net Assets - Represent those net assets that must be maintained in perpetuity, the income from which can be spent for program related expenses.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, except money market funds held by brokerage firms. Cash equivalents are stated at cost, which approximates market value.

The Foundation from time to time during the year may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk.

Restricted Funds

Restricted funds represent cash and investments that are restricted for specific programs.

Unconditional Promises-to-Give (Assets)

Promises-to-give are recognized as contributions in the period the promises are received. Contributions expected to be received in future years are discounted to their present value at a rate of 4.0% and presented as long-term assets. At December 31, 2014 and 2013, management considers contributions receivable to be fully collectible; accordingly, no allowance for uncollectible pledges is recorded.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional Promises-to-Give

In 2011, the Foundation was notified of its interest in a charitable lead annuity trust related to a bequest in 2009. The terms of the trust provide for the Foundation to receive 15 annual distributions of \$300,000 per year; however, the terms of the trust provide the third party trustee with variance power after the first two years of payments to the Foundation. As a result, the Foundation's interest in future annual distribution is uncertain, and accordingly, the Foundation has not recognized an asset based on this annual condition. The estimated net present value of the conditional promises-to-give of \$2,857,808 is approximately \$2,560,000 at December 31, 2014 (using a discount rate of 2.17% based on a 10 year U.S. Treasury note).

Student Loan Receivables

The Foundation provides interest-free loans to students for post-secondary education. Loans are awarded twice a year with a maximum award of \$9,000 per year for a student and lifetime maximum loan of \$40,000.

Student loans are stated at cost when awarded. The student is obligated to start repaying loans upon graduation after twelve months of grace period or approved deferment period. Generally, repayment of loans is scheduled over five years. No interest is charged or accrued on loans while a student is actively enrolled in school or during the scheduled or approved repayment period.

The allowance for uncollectible loans is increased by provisions charged to expense and reduced by accounts charged off, net of recoveries. The allowance for uncollectible loans is maintained at a level considered adequate to provide for potential loan losses at 3% of gross student loans outstanding. Past due or default status is determined based on contractual terms.

If any student loan installment becomes delinquent and new contractual terms are not reached, the entire balance owed shall immediately become due and payable. The balance owed shall bear interest at a rate equal to the lesser of ten percent (10%) per year or the highest lawful rate. In addition, the debtor is liable for all costs of collection including reasonable attorney's fees. Interest income on student loans is recognized only to the extent cash payments are received. The Foundation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the debtor's failure to meet repayment terms, the debtor's deteriorating or deteriorated financial condition, or for other reasons.

Investments

Investments consist of certificates of deposit, mutual funds, and municipal bonds. Those with original maturities of less than three months from the date of purchase are classified as cash equivalents. Additionally, those with maturities greater than three months but less than one year are classified as current investments, whereas those with maturities greater than one year are classified as long-term investments. Investments are presented in the financial statements at fair value. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. Gains or losses on securities are based on the average cost method.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Foundation determines the fair values of its financial instruments based on the fair value hierarchy established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Declines in the fair value of individual investments below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the St. Louis Region to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Property and Equipment

Purchases of property and equipment with values of \$1,000 or more are capitalized, while all other purchases are recorded as expense in the year purchased. Property and equipment are recorded at cost, if purchased, or at estimated fair market value on the date of receipt, if donated.

Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land Improvements	10
Building and Building Improvements	10 - 30
Leasehold Improvements	Term of Lease
Furniture and Fixtures	5 - 7

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, Grants, and Amounts Held for Collaborative Programming

All contributions are considered to be available for the general programs of the Foundation unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of revenues and expenses and changes in net assets as net assets released from restrictions. Donor restricted contributions are recorded in the temporarily restricted class for restrictions expiring during the fiscal year, and then transferred to the unrestricted class.

Grants are generally recognized as income in the period that specific services are performed. However, certain grants may qualify as contributions, and accordingly, they are recognized as support when made.

Amounts held for collaborative programming consists primarily of funds collected in advance on collaborative arrangements (for St. Louis Graduates). The Foundation's receipts and expenditures for the year ended December 31, 2014 under these collaborative arrangements were \$250,005 and \$230,461, respectively. Since the Foundation acts in an agency role, these amounts are not reflected in revenues or expenses in the accompanying financial statements.

Unconditional Promises-to-Give for Future Forward Program (Liabilities)

Unconditional promises-to-give for Future Forward Program are recorded as liabilities and expenses in the period the promises are made.

Annuity Trusts, Gift Annuities, and Beneficial Interests in Trusts

The Foundation is beneficiary and trustee of two annuity trusts. As the trustee, the Foundation is required to invest the funds, and to make annual distributions to the donor or specified beneficiaries and the Foundation has the residual interest in the remainder trust assets.

The Foundation entered into gift annuity agreements for which the donor contributed assets in exchange for distribution of annuity payments to the donor or beneficiaries for their remaining lives.

The liabilities for the future payments to donors or beneficiaries have been recorded using published actuarial lives and discount rates based on the return yields of the trust assets. The annuity trusts and gift annuities were recorded at fair value in the year the irrevocable gift agreements were signed and the difference between the fair value of donated assets and the calculated liability has been recognized as contribution revenue. The Foundation annually revalues the liability for future annuity payments based on changes in actuarial assumptions.

The Foundation is a beneficiary of a unitrust. The Foundation has the irrevocable right to receive a percentage of the fair market value of the trust as stated in the agreement. The Foundation recorded an estimate of its share of the unitrust's net assets as long-term unconditional promises-to-give.

As disclosed in Note 1 (conditional promises-to-give), the Foundation recognized \$300,000 of bequest revenue from a charitable lead annuity trust for each of the years ended December 31, 2014 and 2013.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ScholarShop Revenues

Shop revenues are recognized when merchandise is sold and are presented net of operating and management expenses on the statements of revenues and expenses and changes in net assets - modified cash basis. Advertising for ScholarShop is charged to operations when incurred.

Student Loans Awarded

The Foundation provides interest-free loans to qualified students for post-secondary education. The outstanding loans are presented on the Statement of Assets, Liabilities and Net Assets - Modified Cash Basis as student loan receivables.

Grants Awarded

Grants are recognized as expense based on actual award and/or date of promise.

Income Taxes

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation's federal exempt organization business income tax returns for the statutory period are subject to examination by the IRS.

Functional Expenses

The Foundation allocates expenses on a functional basis among program and supporting services. Expenses that can be directly associated with a specific program are allocated directly according to their functional expense classification. Other expenses that are common to several functions are allocated by various statistical bases. Student loans awarded are considered program expenses.

ScholarShop expenses are netted with shop sales and are, therefore, excluded from the statement of functional expenses - modified cash basis.

Cash Flows Reporting

The Foundation has a policy to immediately sell donated securities from donors and utilize those resources for unrestricted activities unless restricted by the donor for long-term purposes. The Foundation recognized donated securities of \$277,989 and \$80,046 during the years ended December 31, 2014 and 2013, respectively.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2013, to conform to the presentation for the year ended December 31, 2014.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 (With Comparative Totals for 2013)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Foundation has performed a review of events subsequent to the statement of assets, liabilities and net assets - modified cash basis date through March 5, 2015, the date the financial statements were available to be issued.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31,	
	2014	2013
Checking	\$ 1,186,434	\$ 1,007,863
Money Market Mutual Funds	<u>306,286</u>	<u>210,887</u>
Total cash and cash equivalents	<u>\$ 1,492,720</u>	<u>\$ 1,218,750</u>

NOTE 3 — RESTRICTED FUNDS

Restricted funds consist of the following:

	December 31,	
	2014	2013
Centennial Scholars Program (current) (a)	\$ 30,401	\$ -
Future Forward Program (long-term) (b)	<u>21,500</u>	<u>-</u>
Total restricted funds	<u>\$ 51,901</u>	<u>\$ -</u>

(a) The Centennial Scholars Program was launched during 2014 in collaboration with Big Brothers Big Sisters of Eastern Missouri (BBBSEMO) to award scholarships to the high school graduating class of 2014, who were Little Brothers, Little Sisters in BBBSEMO's mentoring programs. Students may receive up to eight semesters of funding at a maximum of \$5,000 per semester through 2020 (or six years) for undergraduate studies. The program is funded by a donor on a reimbursement basis in which the Foundation receives the funds, when the Little Brothers, Little Sisters reapply and meet the requirements annually. For the year ended December 31, 2014, the Foundation granted awards of \$104,900 for this program.

(b) The Future Forward Program (a 529 College Saving Plan), was launched during 2014 to establish college saving accounts for two local middle schools and a youth agency. As of December 31, 2014, the Foundation committed a total of \$61,500 (representing initial account funding of \$500 per eighth-grade student) and funded \$21,500 to open the student saving accounts with MOST - Missouri's 529 College Saving Plan. The Foundation is the owner of these accounts with the student listed as the beneficiary. The remaining \$40,000 is expected to be funded in early 2015. The Foundation has conditionally pledged additional funding up to \$900 per student based on certain criteria as defined in the Future Forward Program.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
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NOTE 4 — STUDENT LOAN RECEIVABLES

Student loan receivables consist of the following:

	December 31,	
	2014	2013
Loan Balances Not Yet in Repayment	\$ 13,350,808	\$ 12,879,977
Loan Balances in Repayment	<u>12,616,965</u>	<u>11,978,332</u>
Total student loan receivables	25,967,773	24,858,309
Less Allowance for Student Loan Losses	<u>779,033</u>	<u>745,749</u>
Net student loan receivables	25,188,740	24,112,560
Less Current Portion (Estimated Repayments in 2015)	<u>1,950,000</u>	<u>2,000,000</u>
Long-Term Student Loan Receivables (Estimated Repayments Beyond 2015)	<u>\$ 23,238,740</u>	<u>\$ 22,112,560</u>

Changes in the allowance for uncollectible loans are as follows:

	December 31,	
	2014	2013
Balance, Beginning	\$ 745,749	\$ 710,193
Provision for uncollectible loans	170,397	142,039
Recoveries on loans	6,413	10,146
Less loans charged off	<u>(143,526)</u>	<u>(116,629)</u>
Balance, Ending	<u>\$ 779,033</u>	<u>\$ 745,749</u>

The following table provides aging information on the Foundation's student loans:

	Students in School - Amounts Not Due (*)	Students in Repayment			Total
		Current or Less Than 30 Days Past Due	30-89 Days Past Due	90 Days Past Due	
December 31, 2014					
Student Loans	<u>\$13,350,808</u>	<u>\$ 9,301,366</u>	<u>\$114,373</u>	<u>\$ 3,201,226</u>	<u>\$25,967,773</u>
December 31, 2013					
Student Loans	<u>\$12,879,977</u>	<u>\$ 9,162,927</u>	<u>\$106,340</u>	<u>\$ 2,709,065</u>	<u>\$24,858,309</u>

(*) Including grace period.

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NOTE 4 — STUDENT LOAN RECEIVABLES (Continued)

The following table provides information about the credit risk of student loans using the Foundation's internal review process. Student loans are generally not due and payable while a student is enrolled in school and during a one year grace period following graduation. These loan balances are classified as low risk. Loans that are not yet in repayment or are in repayment and being paid on schedule are also classified as low risk. When a student loan is in repayment status and a portion of the debtor's loan balance becomes past due, communication between the Foundation and debtor may result in extension or deferment of the debt. This group of debtors is considered average risk as there is a detailed review of the debtor's current financial condition and ongoing communication between the Foundation and the debtor. When communication with the debtor ceases or there is a further deterioration of the debtor's performance in meeting loan repayment obligations, the loan balance is referred to an external professional collection firm. Even though there is a strong repayment track record by this group of debtors, the loan balance in collections is rated as doubtful and is watched closely for improvement or further deterioration.

	December 31,	
	2014	2013
Student Loans		
Average or lower risk	\$ 22,862,524	\$ 22,240,661
Doubtful	<u>3,105,249</u>	<u>2,617,648</u>
	<u>\$ 25,967,773</u>	<u>\$ 24,858,309</u>

NOTE 5 — INVESTMENTS

Investments consist of the following:

	December 31,	
	2014	2013
Certificates of Deposit (CDs)	\$ -	\$ 442,000
Mutual Funds		
Dimensional Fund Advisors (DFA) U.S. Core Equity 2	1,787,654	1,779,755
DFA Five Year Global Fixed	1,023,401	1,053,904
Vanguard GNMA Fund	1,036,600	1,018,071
Vanguard Short-Term Investment Grade	1,349,950	1,429,059
All other mutual funds	2,117,876	2,099,702
Municipal Bonds	<u>391,520</u>	<u>372,103</u>
	7,707,001	8,194,594
Less Short-Term Investment	<u>-</u>	<u>442,000</u>
	<u>\$ 7,707,001</u>	<u>\$ 7,752,594</u>

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NOTE 6 — FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value	Fair Value December 31, 2013
	December 31, 2014				
<i>Assets</i>					
CDs	\$ -	\$ -	\$ -	\$ -	\$ 442,000
Mutual funds					
Equities	3,905,530	-	-	3,905,530	3,879,457
Fixed income	3,409,951	-	-	3,409,951	3,501,034
Municipal bonds	-	391,520	-	391,520	372,103
2014 Totals	<u>\$ 7,315,481</u>	<u>\$ 391,520</u>	<u>\$ -</u>	<u>\$ 7,707,001</u>	
2013 Totals	<u>\$ 7,380,491</u>	<u>\$ 814,103</u>	<u>\$ -</u>		<u>\$ 8,194,594</u>
<i>Liability-Annuities Payable</i>					
2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,983</u>	<u>\$ 145,983</u>	
2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 153,371</u>		<u>\$ 153,371</u>

Annuities payable are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	December 31,	
	2014	2013
Balance, Beginning	\$ 153,371	\$ 177,315
Revaluation of annuities payable	21,830	5,274
Payments	(29,218)	(29,218)
Balance, Ending	<u>\$ 145,983</u>	<u>\$ 153,371</u>

Gains included in earnings are reported as follows:

	Years Ended December 31,	
	2014	2013
Realized Gains on Investments	\$ 44,241	\$ 57,235
Unrealized Gains on Investments	59,095	732,360
	<u>\$ 103,336</u>	<u>\$ 789,595</u>

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NOTE 7 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2014	2013
Land	\$ 423,412	\$ 423,412
Land Improvements	137,452	137,452
Building and Building Improvements	4,214,006	4,214,006
Leasehold Improvements	290,636	290,636
Furniture and Fixtures	<u>713,061</u>	<u>780,875</u>
	5,778,567	5,846,381
Less Accumulated Depreciation	<u>(3,602,205)</u>	<u>(3,480,279)</u>
	<u>\$ 2,176,362</u>	<u>\$ 2,366,102</u>

NOTE 8 — ANNUITIES PAYABLE

The Foundation receives donations from benefactors in exchange for annuities that provide income to a named beneficiary (or beneficiaries) until their death. The difference between the amount of the donation and the present value of expected future payments to the beneficiary is recognized as revenue in the year of the donation. The total expected annual payments are \$29,218 at December 31, 2014 and 2013. In calculating the present value of the annuities, the Foundation used a discount rate based on the IRS applicable federal rate for the month the contributions were received, which were applied to the current expected payoff based on the annuitant's remaining expected life.

Future maturities of annuities payable are as follows:

Year Ending December 31,		
2015 - Current Portion		\$ 29,218
2016	\$ 29,218	
2017	29,218	
2018	29,218	
2019	<u>29,111</u>	<u>116,765</u>
		<u>\$ 145,983</u>

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NOTE 9 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2014	2013
Program Restrictions		
Deedee Becker Fund - Loan to Nursing Students	\$ 477,269	\$ 402,615
Annuity Trust Funds	<u>159,990</u>	<u>177,429</u>
	637,259	580,044
Endowment Funds Income Restricted as to Time	400,518	305,344
Time Restrictions	<u>236,943</u>	<u>70,000</u>
	<u>\$ 1,274,720</u>	<u>\$ 955,388</u>

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	Years Ended December 31,	
	2014	2013
Program Restrictions	\$ 3,116	\$ 32,641
Time Restrictions	103,457	198,500
Endowment Appropriations	<u>123,580</u>	<u>116,937</u>
Total restrictions released	<u>\$ 230,153</u>	<u>\$ 348,078</u>

NOTE 10 — PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	December 31,	
	2014	2013
Endowment Funds - Managed by the Foundation		
Borck Fund	\$ 129,000	\$ 129,000
Clark Cox Fund	250,000	250,000
DSL01 Fund	309,598	309,598
Kipnis Fund	253,600	253,600
Janney Fund	150,000	150,000
Horncrest Foundation Fund	1,993,442	1,993,442
Mildred E. and Francis R. Lynch Designated Scholarship Grant Fund	113,156	113,156
The Helen E. Nash, M.D. Educational Trust Fund for Underprivileged Students	279,603	278,508
The Joanne M. Clevinger Scholarship Fund	<u>100,000</u>	<u>6,000</u>
Total permanently restricted net assets	<u>\$ 3,578,399</u>	<u>\$ 3,483,304</u>

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 — ENDOWMENT

The Foundation's endowment consists of various funds established for program purposes (Note 10). Its endowment includes donor restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor restrictions.

Uniform Prudent Management of Institutional Funds Act

During 2006, the Uniform Law Commission (ULC) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline for states to use in enacting legislation related to the UPMIFA. In response to the ULC's act, the Financial Accounting Standards Board (FASB) issued Endowments of Not-for-Profit Organizations, effective for years ending after December 15, 2008, which requires substantial additional disclosures relating to endowments. Subsequent to year end, the State of Missouri passed legislation enacting a state version of the UPMIFA.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified by temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds.

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

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NOTE 11 — ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the appropriate index while assuring a moderate level of investment risk. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 5.0% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. In 2013, the Foundation established a new spending policy to distribute each year an amount at least equal to 3.5% of the endowment funds' average historical cost of the prior twelve quarters through the calendar year end preceding the fiscal year. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets and consistency with programs and commitments to students over a long-term period.

Endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2014				
Donor Restricted Endowment Funds - Managed by the Foundation	<u>\$ -</u>	<u>\$ 400,518</u>	<u>\$ 3,578,399</u>	<u>\$ 3,978,917</u>
December 31, 2013				
Donor Restricted Endowment Funds - Managed by the Foundation	<u>\$ -</u>	<u>\$ 305,344</u>	<u>\$ 3,483,304</u>	<u>\$ 3,788,648</u>

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NOTE 11 — ENDOWMENT (Continued)

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total December 31, 2013</u>
	<u>December 31, 2014</u>				
Endowment Net Assets, Beginning of Year	\$ -	\$ 305,344	\$ 3,483,304	\$ 3,788,648	\$ 3,198,796
Gifts	-	-	95,095	95,095	284,508
Interest and Dividends	-	158,778	-	158,778	81,768
Gains on Investments	-	59,976	-	59,976	340,513
Appropriated for Expenditure	<u>-</u>	<u>(123,580)</u>	<u>-</u>	<u>(123,580)</u>	<u>(116,937)</u>
	<u>\$ -</u>	<u>\$ 400,518</u>	<u>\$ 3,578,399</u>	<u>\$ 3,978,917</u>	<u>\$ 3,788,648</u>

NOTE 12 — OPERATING LEASES

The Foundation leases certain equipment and shop space for its ScholarShop - Webster Groves location under operating leases which expire at various dates through 2018.

Minimum payments on these operating leases are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 116,558
2016	121,315
2017	104,258
2018	<u>17,391</u>
	<u>\$ 359,522</u>

Rent expense, including common area maintenance, was \$139,690 and \$123,279 for the years ended December 31, 2014 and 2013, respectively, and is included in cost of shop operations.

Equipment rental expense was \$21,009 and \$11,890 for the years ended December 31, 2014 and 2013, respectively, and is included in administrative expenses.

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NOTE 13 — SHOP SALES

Shop sales, net of operating and management expenses, of the Foundation's ScholarShop consist of the following:

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
Shop Sales	<u>\$ 3,035,383</u>	<u>\$ 3,208,313</u>
Operating and Management Expenses		
Salaries, payroll taxes and benefits	1,128,348	1,068,027
Rent	139,690	123,279
Advertising	137,893	132,804
Other operating expenses	339,697	328,224
Depreciation	<u>124,759</u>	<u>135,286</u>
	<u>1,870,387</u>	<u>1,787,620</u>
	<u>\$ 1,164,996</u>	<u>\$ 1,420,693</u>

Although not reflected in the accompanying statement of revenues and expenses and changes in net assets - modified cash basis, the Foundation estimates the value of donated goods to ScholarShop at \$4,636,000 and \$4,354,000 for the years ending December 31, 2014 and 2013, respectively.

In addition, numerous volunteers have donated significant amounts of time to the two ScholarShop locations. Although no amounts have been reflected in the financial statements, management estimates the fair value of those services to be \$267,000 and \$263,000 for the years ending December 31, 2014 and 2013, respectively.

NOTE 14 — DEFERRED COMPENSATION 403(b) PLAN

The Foundation offers a 403(b) deferred compensation plan for all eligible employees upon their first day of employment. After two years of service, the Foundation matches the employee deferred amount, up to 20%. The Foundation contributed a total of \$9,893 and \$10,312 to the plan for the years ended December 31, 2014 and 2013, respectively.

NOTE 15 — SUBSEQUENT EVENTS

Effective January 1, 2015, the Foundation increased the endowment spending rate to 4.5%.