

**SMART BOWLING SCHOLARSHIP
FUNDING CORPORATION**
Arlington, Texas

FINANCIAL STATEMENTS
July 31, 2010

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Independent Auditor's Report

Board of Directors
SMART Bowling Scholarship Funding Corporation
Arlington, Texas

We have audited the accompanying statement of financial position of SMART Bowling Scholarship Funding Corporation as of July 31, 2010, and the related statements of activities and cash flows for the period from March 23, 2010 to July 31, 2010. These financial statements are the responsibility of the SMART Bowling Scholarship Funding Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMART Bowling Scholarship Funding Corporation as of July 31, 2010, and the changes in its net assets and its cash flows for the period from March 23, 2010 to July 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Milwaukee, Wisconsin
May 20, 2011

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENT OF FINANCIAL POSITION
July 31, 2010

ASSETS

ASSETS

Cash and cash equivalents	\$ 11,501,110
Investments, at fair value	24,118,656
Investment income receivable	<u>67,682</u>

TOTAL ASSETS \$ 35,687,448

LIABILITIES AND NET ASSETS (DEFICIT)

LIABILITIES

Accounts payable	\$ 16,786
Scholarship awards payable	<u>36,150,741</u>

Total liabilities 36,167,527

NET ASSETS (DEFICIT) - UNRESTRICTED (480,079)

TOTAL LIABILITIES AND NET ASSETS (DEFICIT) \$ 35,687,448

The accompanying notes are an integral part of the financial statements.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENT OF ACTIVITIES
Period from March 23, 2010 to July 31, 2010

REVENUES

Investment income	
Interest and dividends	\$ 171,769
Net realized and unrealized gains	<u>240,277</u>
Total revenues	412,046

EXPENSES

Administrative	<u>17,058</u>
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CHANGE IN NET ASSETS FROM OPERATIONS 394,988

NON-OPERATING ACTIVITIES

Scholarship liability in excess of assets upon formation of SMART	<u>875,067</u>
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CHANGE IN NET ASSETS (DEFICIT) (480,079)

NET ASSETS, BEGINNING OF PERIOD -

NET ASSETS (DEFICIT), END OF PERIOD \$ (480,079)

The accompanying notes are an integral part of the financial statements.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENT OF CASH FLOWS
Period from March 23, 2010 to July 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets (deficit)	\$ (480,079)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities	
Net realized and unrealized gains on investments	(412,046)
Effects of changes in operating assets and liabilities	
Investment income receivable	(67,682)
Accounts payable	16,786
Scholarship awards payable	<u>2,082,678</u>
Net cash provided by operating activities	<u>1,139,657</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of investments	3,971,764
Purchases of investments	(5,841,096)
Cash transferred from USBC	<u>12,230,785</u>
Net cash used in investing activities	<u>10,361,453</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,501,110
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 11,501,110</u>

The accompanying notes are an integral part of the financial statements.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The SMART Bowling Scholarship Funding Corporation (SMART) was incorporated on March 23, 2010, in the state of Wisconsin, for the purpose of administering a scholarship program. SMART's revenues are derived primarily from investment gains. Prior to SMART's inception, United States Bowling Congress, Inc. (USBC) had been administering the program. SMART's fiscal year ends on July 31. Significant accounting policies followed by SMART are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash Equivalents

SMART considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses on investments are included in the statement of activities.

Risks and Uncertainties

SMART utilizes various investment instruments, including bonds and certificates of deposit. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect SMART's account balances and the amounts reported in the financial statements.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Scholarship Awards Payable

SMART administers a scholarship program for the bowling community known as Scholarship Management and Accounting Reports for Tenpins. SMART collects, manages, and disburses scholarship funds for youth bowling scholarships. A scholarship awards payable is recorded for payments received. SMART effectively acts as an agent for these funds, and as such no amounts are shown in the statement of activities for changes in account balances.

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. All net assets of SMART and changes therein are classified as unrestricted net assets at July 31, 2010.

Income Taxes

The Internal Revenue Service (IRS) has issued a determination letter dated January 11, 2011, granting SMART an exemption from federal income tax under IRS Code Section 501(c)(3). However, income received from certain activities is subject to income tax as unrelated business income. Management is not aware of any items that could cause revocation of the tax-exempt status.

NOTE 2 - INVESTMENTS

Investments consist of the following at July 31, 2010:

Investments	
Certificates of deposit	\$ 19,197,252
Fixed income	<u>4,921,404</u>
Total investments	<u>\$ 24,118,656</u>

Investment income for the period ended July 31, 2010 is as follows:

Interest and dividends	\$ 171,769
Net realized and unrealized gains	<u>240,277</u>
Total investment income	<u>\$ 412,046</u>

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
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NOTE 3 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit are valued at cost, which approximates fair value.

Bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

The following table sets forth by level, within the fair value hierarchy, SMART's assets at fair value as of July 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ -	\$ 19,197,252	\$ -	\$ 19,197,252
Fixed income				
Government bonds	-	4,533,572	-	4,533,572
Foreign bonds	-	387,832	-	387,832
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets at fair value	<u>\$ -</u>	<u>\$ 24,118,656</u>	<u>\$ -</u>	<u>\$ 24,118,656</u>

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2010

NOTE 4 - CASH FLOW DISCLOSURES

During 2010, USBC transferred cash and cash equivalents and investments and the corresponding scholarship liability to SMART. The amount of assets and liabilities transferred was approximately \$34,000,000, of which approximately \$21,800,000 were assets classified as investments.

NOTE 5 - RELATED PARTY TRANSACTIONS

Administrative and clerical services are provided by USBC. Included in accounts payable is \$15,510 due to USBC for these services for the year ended July 31, 2010.

Due to the shortfall of SMART assets as compared to the scholarship liabilities upon formation of SMART, USBC has guaranteed to fund up to \$2 million of a shortfall. Payment would only occur if requested scholarship payouts exceed available cash and investments.

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

SMART maintains its cash and cash equivalents in various commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation up to specified limits. Balances in excess of these limits are uninsured.

NOTE 7 - SUBSEQUENT EVENTS

Management evaluated subsequent events through May 20, 2011, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2010, but prior to May 20, 2011 that provided additional evidence about conditions that existed at July 31, 2010, have been recognized in the financial statements for the year ended July 31, 2010. Events or transactions that provided evidence about conditions that did not exist at July 31, 2010, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended July 31, 2010.

This information is an integral part of the accompanying financial statements.