

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

FINANCIAL STATEMENTS
July 31, 2012 and 2011

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Independent Auditor's Report

Board of Directors
SMART Bowling Scholarship Funding Corporation
Arlington, Texas

We have audited the accompanying statements of financial position of SMART Bowling Scholarship Funding Corporation as of July 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of SMART's management. 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 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
January 7, 2013

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF FINANCIAL POSITION
July 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,859,668	\$ 12,729,915
Accounts receivable	273,249	-
Investment income receivable	154,246	77,542
Investments, at fair value	<u>36,147,214</u>	<u>26,608,326</u>
Total current assets	44,434,377	39,415,783
SOFTWARE DEVELOPMENT IN PROGRESS	<u>181,947</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 44,616,324</u>	<u>\$ 39,415,783</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 255,748	\$ 105,862
Scholarship awards payable	<u>43,416,157</u>	<u>39,160,253</u>
Total liabilities	43,671,905	39,266,115
NET ASSETS - UNRESTRICTED	<u>944,419</u>	<u>149,668</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,616,324</u>	<u>\$ 39,415,783</u>

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF ACTIVITIES
Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Investment income		
Interest and dividends	\$ 586,871	\$ 516,260
Net realized and unrealized gains	<u>569,933</u>	<u>181,874</u>
Total revenues	<u>1,156,804</u>	<u>698,134</u>
 EXPENSES		
Earnings allocated to providers	230,000	-
Administrative	<u>132,053</u>	<u>68,387</u>
Total expenses	<u>362,053</u>	<u>68,387</u>
 CHANGE IN NET ASSETS	 794,751	 629,747
 NET ASSETS (DEFICIT), BEGINNING OF YEAR	 <u>149,668</u>	 <u>(480,079)</u>
 NET ASSETS, END OF YEAR	 <u>\$ 944,419</u>	 <u>\$ 149,668</u>

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 794,751	\$ 629,747
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(569,933)	(181,874)
Effects of changes in operating assets and liabilities		
Investment income receivable	(76,704)	(9,860)
Accounts receivable	(273,249)	-
Accounts payable	149,886	89,076
Scholarship awards payable	<u>4,255,904</u>	<u>3,009,512</u>
Net cash provided by operating activities	<u>4,280,655</u>	<u>3,536,601</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	39,624,531	9,293,007
Purchases of investments	(48,593,486)	(11,600,803)
Purchase of software in progress	<u>(181,947)</u>	<u>-</u>
Net cash used in investing activities	<u>(9,150,902)</u>	<u>(2,307,796)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,870,247)	1,228,805
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,729,915</u>	<u>11,501,110</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 7,859,668</u>	<u>\$ 12,729,915</u>

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2012 and 2011

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. SMART's fiscal year ends on July 31. Significant accounting policies followed by SMART are presented below.

Use of 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 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. 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.

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. Investment income is used to pay the administrative costs of operating the program. Investment income in excess of these administrative costs may be allocated to the accounts of the provider organizations.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2012 and 2011.

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). Management is not aware of any items that could cause revocation of the tax-exempt status.

The federal and state income tax returns of SMART for 2010 and 2009 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

NOTE 2 - INVESTMENTS

Investments consist of the following at July 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments		
Certificates of deposit	\$ -	\$ 23,467,130
Mortgage backed securities	792,894	-
Bonds	28,229,041	3,141,196
Mutual funds	<u>7,125,279</u>	<u>-</u>
Total investments	<u>\$ 36,147,214</u>	<u>\$ 26,608,326</u>

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2012 and 2011

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 and mortgage backed securities are valued with an institutional bid evaluation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

Mutual funds are valued at quoted market prices, which represent the net asset value of shares held at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SMART 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 fair value measurement at the reporting date.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
July 31, 2012 and 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, SMART's assets at fair value as of July 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ -	\$ -	\$ -	\$ -
Fixed income				
Government bonds	-	14,414,713	-	14,414,713
Municipal bonds	-	164,202	-	164,202
Corporate bonds	-	13,650,126	-	13,650,126
Mortgage backed securities	-	792,894	-	792,894
Mutual funds				
International	2,889,182	-	-	2,889,182
Index funds	<u>4,236,097</u>	<u>-</u>	<u>-</u>	<u>4,236,097</u>
Total assets at fair value	<u>\$ 7,125,279</u>	<u>\$ 29,021,935</u>	<u>\$ -</u>	<u>\$ 36,147,214</u>

The following table sets forth by level, within the fair value hierarchy, SMART's assets at fair value as of July 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Certificates of deposit	\$ -	\$ 23,467,130	\$ -	\$ 23,467,130
Fixed income				
Government bonds	-	686,481	-	686,481
Municipal bonds	-	2,062,727	-	2,062,727
Foreign bonds	<u>-</u>	<u>391,988</u>	<u>-</u>	<u>391,988</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ 26,608,326</u>	<u>\$ -</u>	<u>\$ 26,608,326</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

Administrative and clerical services are provided by United States Bowling Congress, Inc. (USBC). Included in accounts payable is \$202,229 and \$104,793 due to USBC for these services for the year and period ended July 31, 2012 and 2011, respectively. Included in accounts receivable is \$62,000 and \$0 as of July 31, 2012 and 2011, respectively, due from USBC.

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NOTE 5 - 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 6 - SUBSEQUENT EVENTS

Management evaluated subsequent events through January 7, 2013, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2012, but prior to January 7, 2013 that provided additional evidence about conditions that existed at July 31, 2012, have been recognized in the financial statements for the year ended July 31, 2012. Events or transactions that provided evidence about conditions that did not exist at July 31, 2012, 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, 2012.

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