

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

**FINANCIAL STATEMENTS  
December 31, 2013**

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## Independent Auditors' Report

Board of Directors  
SMART Bowling Scholarship Funding Corporation  
Arlington, Texas

We have audited the accompanying financial statements of SMART Bowling Scholarship Funding Corporation, which comprise the statement of financial position as of December 31, 2013, and the related statement of activities and cash flows for the seventeen month period 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 audit. 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 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 SMART Bowling Scholarship Funding Corporation as of December 31, 2013, and the changes in its net assets and its cash flows for the seventeen month period then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

Milwaukee, Wisconsin  
June 11, 2014

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 4,502,772
Investment income receivable	227,829
Investments, at fair value	<u>44,255,046</u>

Total current assets	<u>48,985,647</u>
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**SOFTWARE**

Software, net	910,467
Less accumulated depreciation	<u>95,721</u>

Total software	<u>814,746</u>
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<b>TOTAL ASSETS</b>	<b><u>\$ 49,800,393</u></b>
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**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 96,177
Due to related parties	312,594
Scholarship awards payable	<u>46,802,967</u>

Total liabilities	47,211,738
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<b>NET ASSETS - UNRESTRICTED</b>	<b><u>2,588,655</u></b>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 49,800,393</u></b>
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The accompanying notes are an integral part of the financial statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENT OF ACTIVITIES**  
For the Seventeen Month Period Ended December 31, 2013

**REVENUES**

Investment income	
Interest and dividends	\$ 853,740
Net realized and unrealized gains	<u>1,792,820</u>
Total revenues	<u>2,646,560</u>

**EXPENSES**

Earnings allocated to providers	391,142
Administrative	<u>611,182</u>
Total expenses	<u>1,002,324</u>

**CHANGE IN NET ASSETS** 1,644,236

**NET ASSETS, BEGINNING OF PERIOD** 944,419

**NET ASSETS, END OF PERIOD** \$ 2,588,655

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

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**For the Seventeen Month Period Ended December 31, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 1,644,236
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized gains on investments	(1,792,820)
Depreciation	95,721
Effects of changes in operating assets and liabilities	
Investment income receivable	(73,583)
Accounts receivable	273,249
Accounts payable	(19,342)
Due to related parties	172,365
Scholarship awards payable	<u>3,386,810</u>
Net cash provided by operating activities	<u>3,686,636</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sales of investments	31,653,929
Purchases of investments	(37,968,941)
Purchase of software	<u>(728,520)</u>
Net cash used in investing activities	<u>(7,043,532)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,356,896)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>7,859,668</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 4,502,772</u>

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

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**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 changed its fiscal year end from July 31 to December 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.

**Software**

Software is stated at cost. Depreciation is determined using the straight-line method over 7 years.

**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.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**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. 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.

**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 December 31, 2013.

**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, 2011 and 2012 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 December 31, 2013:

Investments	
Mortgage backed securities	\$ 1,071,839
Bonds	33,127,827
Money market funds	250,074
Mutual funds	<u>9,805,306</u>
<b>Total investments</b>	<b><u>\$ 44,255,046</u></b>

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Accounting principles generally accepted in the United States of America 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.

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.

Money market funds are valued at a stable \$1.00 net asset value.

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**  
**December 31, 2013**

**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 December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Government bonds	\$ -	\$ 14,901,660	\$ -	\$ 14,901,660
Municipal bonds	-	149,929	-	149,929
Corporate bonds	-	18,076,238	-	18,076,238
Mortgage backed securities	-	1,071,839	-	1,071,839
Money market funds	-	250,074	-	250,074
Mutual funds				
International	3,078,544	-	-	3,078,544
Index funds	<u>6,726,762</u>	<u>-</u>	<u>-</u>	<u>6,726,762</u>
<b>Total assets at fair value</b>	<u><b>\$ 9,805,306</b></u>	<u><b>\$ 34,449,740</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 44,255,046</b></u>

**NOTE 4 - RELATED PARTY TRANSACTIONS**

Administrative and clerical services are provided by United States Bowling Congress, Inc. (USBC). Amounts due to USBC for these services were \$312,594 at December 31, 2013.

**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 June 11, 2014, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2013, but prior to June 11, 2014 that provided additional evidence about conditions that existed at December 31, 2013, have been recognized in the financial statements for the year ended December 31, 2013. Events or transactions that provided evidence about conditions that did not exist at December 31, 2013, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2013.

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