

CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

STEP UP FOR STUDENTS, INC. AND SUBSIDIARY

June 30, 2011 and 2010

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Independent Auditors' Report

To the Board of Directors of  
Step Up For Students, Inc. and subsidiary

We have audited the accompanying consolidated statement of financial position of Step Up For Students, Inc. (a not-for-profit organization, formerly know as Florida School Choice Fund, Inc.) and subsidiary as of June 30, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. We have also audited the statement of financial position of Step Up For Students, Inc. as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 June 30, 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Step Up For Students, Inc. and subsidiary as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion the June 30, 2010 financial statements present fairly, in all material respects, the financial position of Step Up For Students, Inc. as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Natherson & Company, P.A.*

Sarasota, Florida  
December 27, 2011

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,205,756	\$ 5,946,255
Pledges receivable	99,166,178	38,829,667
Grants receivable	-	624,141
Accounts receivable	217,791	46,430
Prepaid expenses and other assets	<u>44,669</u>	<u>71,717</u>
Total current assets	101,634,394	45,518,210
<b>PROPERTY</b>		
Building and improvements	960,441	960,441
Leasehold improvements	11,082	-
Furniture and equipment	448,222	355,504
Software	<u>258,473</u>	<u>-</u>
	1,678,218	1,315,945
Less accumulated depreciation	<u>452,550</u>	<u>335,410</u>
	1,225,668	980,535
Land	<u>255,000</u>	<u>255,000</u>
	1,480,668	1,235,535
<b>OTHER ASSET</b>		
Loan costs, less accumulated amortization of \$6,804 in 2011 and \$1,152 in 2010	<u>17,330</u>	<u>4,606</u>
Total assets	\$ <u>103,132,392</u>	\$ <u>46,758,351</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 46,656	\$ 44,249
Accounts payable	241,123	102,261
Accrued expenses	251,436	207,741
Grants payable	<u>160,670</u>	<u>94,025</u>
Total current liabilities	699,885	448,276
LONG-TERM DEBT, less current maturities	1,055,020	1,093,821
<b>NET ASSETS</b>		
Unrestricted net assets	1,158,701	1,239,346
Temporarily restricted net assets	<u>100,218,786</u>	<u>43,976,908</u>
	<u>101,377,487</u>	<u>45,216,254</u>
Total liabilities and net assets	\$ <u>103,132,392</u>	\$ <u>46,758,351</u>

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30,

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
Revenues, gains and reclassifications		
Contributions and grants	\$ 3,931,102	\$ 4,069,127
Donated services	8,500	4,892
Investment income	-	2,815
Application fees	1,370,569	530,212
Other income	<u>64,895</u>	<u>14,869</u>
Total unrestricted revenues and gains	5,375,066	4,621,915
Net assets released from restriction	<u>131,680,484</u>	<u>102,262,635</u>
Total unrestricted revenues, gains and reclassifications	137,055,550	106,884,550
Expenses		
Program services		
Florida Tax Credit Scholarship Program	134,065,002	103,980,485
School Development Program	423,270	581,217
Communications	424,367	375,518
Florida Alliance for Choices in Education	<u>223,650</u>	<u>621,897</u>
Total program services	135,136,289	105,559,117
Supporting services		
General and administrative	1,082,378	653,122
Development and fundraising	<u>917,528</u>	<u>576,265</u>
	1,999,906	1,229,387
Total expenses	<u>137,136,195</u>	<u>106,788,504</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(80,645)	96,046

The accompanying notes are an integral part of these statements.

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED

Years ended June 30,

	<u>2011</u>	<u>2010</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	187,907,435	87,456,883
Investment income	14,927	32,007
Net assets released from restrictions	<u>(131,680,484)</u>	<u>(102,262,635)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>56,241,878</u>	<u>(14,773,745)</u>
INCREASE (DECREASE) IN NET ASSETS	56,161,233	(14,677,699)
Net assets at beginning of year	<u>45,216,254</u>	<u>59,893,953</u>
Net assets at end of year	\$ <u>101,377,487</u>	\$ <u>45,216,254</u>

The accompanying notes are an integral part of these statements.

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2011

	Program services				Supporting Services			Total Expenses
	Florida Tax Credit Scholarship Program	School Development Program	Communications	Florida Alliance for Choices in Education	Total Program Services	General and Administrative	Development and Fundraising	
Scholarships and grants	\$ 128,750,027	\$ 111,600	\$ -	\$ -	\$ 128,861,627	\$ -	\$ -	\$ 128,861,627
Parent outreach	-	-	-	6,250	6,250	-	-	6,250
School meetings	-	12,758	-	-	12,758	-	-	12,758
Media and publications	8,705	-	57,299	-	66,004	-	967	66,971
Salaries and wages	1,620,638	216,147	240,761	136,869	2,214,415	359,832	487,927	3,062,174
Payroll taxes and employee benefits	254,230	35,339	35,974	19,826	345,369	53,884	60,126	459,379
Temporary labor	623,405	306	3	2	623,716	3,493	8	627,217
Rent	177,344	8,436	443	266	186,489	66,899	9,097	262,485
Insurance	20,315	663	783	521	22,282	22,720	1,389	46,391
Contract services	34,047	1,152	10,273	17,351	62,823	13,372	229,680	305,875
Professional fees	21,657	1,987	1,135	568	25,347	131,925	2,838	160,110
Office expenses	123,670	1,521	7,503	6,078	138,772	46,101	18,535	203,408
Printing and postage	64,516	3,851	16,908	1,521	86,796	11,482	9,933	108,211
Telephone	153,093	3,507	8,042	5,142	169,784	8,736	17,683	196,203
Travel and entertainment	48,012	5,167	25,782	16,573	95,534	47,249	39,774	182,557
Depreciation	80,411	11,042	8,365	5,206	105,024	3,637	8,364	117,025
Lobbying	-	-	-	-	-	190,178	-	190,178
Repairs and maintenance	28,908	3,782	1,484	979	35,153	18,436	2,851	56,440
Interest	28,068	3,298	4,300	2,867	38,533	31,737	431	70,701
Recruiting and advertising	74,229	-	275	-	74,504	48,657	8,507	131,668
Uncollectible Florida Tax Credit Pledge and school receivables	1,893,333	-	-	-	1,893,333	-	-	1,893,333
Other costs	60,394	2,714	5,037	3,631	71,776	24,040	19,418	115,234
<b>TOTAL</b>	<b>\$ 134,065,002</b>	<b>\$ 423,270</b>	<b>\$ 424,367</b>	<b>\$ 223,650</b>	<b>\$ 135,136,289</b>	<b>\$ 1,082,378</b>	<b>\$ 917,528</b>	<b>\$ 137,136,195</b>

The accompanying notes are an integral part of this statement.

Step Up For Students, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2010

	Program services				Supporting Services			
	Florida Tax Credit Scholarship Program	School Development Program	Communications	Florida Alliance for Choices in Education	Total Program Services	General and Administrative	Development and Fundraising	Total Expenses
Scholarships and grants	\$ 100,952,918	\$ -	\$ -	\$ -	\$ 100,952,918	\$ -	\$ -	\$ 100,952,918
Student recruiting	-	-	21,269	-	21,269	-	-	21,269
Parent outreach	-	-	7,801	23,467	31,268	-	-	31,268
School meetings	-	149,097	-	-	149,097	-	-	149,097
Media and publications	-	-	40,079	4,538	44,617	-	-	44,617
Salaries and wages	739,886	296,798	191,550	173,153	1,401,387	138,821	306,973	1,847,181
Payroll taxes and employee benefits	118,813	48,666	25,013	25,698	218,190	16,998	41,536	276,724
Rent	62,240	6,004	1,394	1,338	70,976	4,021	10,264	85,261
Insurance	12,413	3,497	2,826	2,651	21,387	5,871	5,571	32,829
Contract services	114,286	6,975	7,257	5,145	133,663	18,882	53,044	205,589
Professional fees	17,947	5,084	3,725	3,576	30,332	37,572	6,162	74,066
Office expenses	51,121	6,232	9,465	4,891	71,709	10,916	20,154	102,779
Printing and postage	102,341	3,915	4,293	1,138	111,687	15,868	20,580	148,135
Telephone	63,654	13,927	9,258	8,437	95,276	23,125	20,342	138,743
Travel and entertainment	17,829	15,035	13,958	16,414	63,236	29,439	36,175	128,850
Depreciation	26,280	7,537	5,738	5,507	45,062	15,300	9,504	69,866
Lobbying	-	-	6,000	-	6,000	199,149	-	205,149
Repairs and maintenance	15,273	3,314	2,596	2,416	23,599	7,112	6,377	37,088
Interest	20,734	6,072	4,911	4,714	36,431	11,707	8,150	56,288
Recruiting and advertising	53,714	-	-	332,118	385,832	80,947	450	467,229
Uncollectible Florida Tax Credit	-	-	-	-	-	-	-	-
Pledge and school receivables	1,281,217	-	-	-	1,281,217	-	-	1,281,217
Other costs	329,819	9,064	18,385	6,696	363,964	37,394	30,983	432,341
TOTAL	\$ <u>103,980,485</u>	\$ <u>581,217</u>	\$ <u>375,518</u>	\$ <u>621,897</u>	\$ <u>105,559,117</u>	\$ <u>653,122</u>	\$ <u>576,265</u>	\$ <u>106,788,504</u>

The accompanying notes are an integral part of this statement.

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 56,161,233	\$ (14,677,699)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities:		
Depreciation and amortization	122,790	71,018
Uncollectible accounts expense	1,893,333	1,281,217
(Increase) decrease in operating assets:		
Accounts receivable	(171,361)	303,978
Pledges receivable	(62,229,844)	(4,352,885)
Grants receivable	624,141	(499,141)
Prepaid expenses and other assets	27,048	8,716,838
Increase in operating liabilities:		
Accounts payable and accrued expenses	186,619	137,715
Grants payable	<u>66,645</u>	<u>94,025</u>
NET CASH (USED IN) OPERATING ACTIVITIES	(3,319,396)	(8,924,934)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity of certificate of deposit	-	72,368
Purchase of leasehold improvements	(11,082)	-
Purchase of software	(258,473)	-
Purchase of furniture and equipment	<u>(92,718)</u>	<u>(106,249)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(362,273)</u>	<u>(33,881)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of loan costs	(18,374)	-
Payments on long term debt	<u>(40,456)</u>	<u>(68,946)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(58,830)</u>	<u>(68,946)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(3,740,499)	(9,027,761)
Cash and cash equivalents at beginning of year	<u>5,946,255</u>	<u>14,974,016</u>
Cash and cash equivalents at end of year	\$ <u>2,205,756</u>	\$ <u>5,946,255</u>

Step Up For Students, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2011 and 2010

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING  
TRANSACTIONS

Donated services valued at \$8,500 and \$4,892 were reported for the fiscal years ended June 30, 2011 and 2010, respectively.

During the fiscal years ended June 30, 2011 and 2010 cash paid for interest was \$55,207 and \$83,239, respectively.

The accompanying notes are an integral part of these statements.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization

Step Up For Students, Inc. (“SUFS”) is a Florida not-for-profit organization incorporated on February 18, 2000. It changed its name from Florida School Choice Fund, Inc. to Step Up For Students, Inc. on January 6, 2011. The mission of SUFS is to ensure economically disadvantaged families have equal access to the customized K-12 learning options they need to effectively educate their children. SUFS believes that educational option programs spur improvements by equipping all of Florida’s parents with the tools to seek the best education for their children. SUFS’s primary focus is in providing learning options for children from low-income and working class families.

Effective August 30, 2010, SUFS formed a Vermont LLC, The Scholarship Organization Network L3C, LLC (“SON”) as a wholly-owned subsidiary. SON commenced operations in March 2011. SON processes scholarship applications for SUFS and other not-for-profit organizations that award legislatively approved K -12 scholarship for students from low income families.

The following is a summary of the programs operated by SUFS.

**Step Up For Students** is approved by the State Department of Education as a Scholarship Funding Organization (SFO) under the Florida Tax Credit Scholarship Program. Under the law, the SFO receives tax-credited contributions and distributes the money in the form of scholarships to low-income children in grades K-12. Corporations can redirect up to 75% of their State of Florida income tax liability or Insurance Premium tax liability, up to 90% of their Alcoholic Beverage Excise Tax liability, and up to 100% of their direct pay sales and use tax liability to the scholarships. For the 2010-2011 school year and the 2009-1010 school year, qualified students received a maximum scholarship of \$4,106 and \$3,950, respectively, to attend a private school or \$500 for transportation to an out-of-district public school. SUFS is allowed to use up to 3% of the contributions collected to administer the scholarship program.

**School Development Program** works with schools and school systems to improve the quality of teachers, teaching and the student learning experience.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

1. Organization - continued

**Florida Alliance for Choices in Education (F.A.C.E.)** began in 2003 as a grassroots effort to serve non-public schools, educators, parents and the community by promoting and defending educational choices for families in Florida. F.A.C.E. helps train choice advocates on how to defend and advance school choice through research, media/public relations, accountability, legislative/political, program implementation and community leader influence.

**The Communications Office** takes the message of school choice to constituency groups, community and political leaders, and local, state and national news publications. It publishes a newsletter with a circulation of about 16,000 four times a year, creates monthly student spotlights, issues press releases on topics of special concern, and writes commentary for various publications.

2. Principles of Consolidation

The consolidated financial statements for the year ended June 30, 2011 include the accounts of the SUFS and its wholly-owned subsidiary, The Scholarship Organization Network L3C, LLC. All significant intercompany transactions have been eliminated.

3. Basis of Presentation

The financial statements of SUFS have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of SUFS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by SUFS. SUFS does not currently have any permanently restricted net assets.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. SUFS has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. SUFS recognized \$8,500 and \$4,892 of donated services during the years ended June 30, 2011 and 2010, respectively.

5. Cash and Cash Equivalents

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

SUFS and SON maintain their cash accounts at commercial banks. Funds in noninterest-bearing transaction accounts are insured in full by the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012. At June 30, 2011, all cash on deposit at commercial banks was fully insured by FDIC.

The Florida Tax Credit Scholarship Program requires that contributions received under the program after allowable administrative expenses of up to three percent (3%) of contributions received, and all interest accrued from contributions must be used for scholarships. At June 30, 2011 and 2010, cash restricted for scholarships under the Florida Tax Credit Scholarship Program totaled \$874,785 and \$5,096,828, respectively.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. SUFS uses the allowance method of accounting for doubtful accounts. The allowance is based upon a review of the current status of existing unconditional promises to give and management's estimate as to their collectibility. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

7. Property and Equipment

SUFS capitalizes all property and equipment acquisitions in excess of \$1,000. Purchases of property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. No such donations have been received by SUFS. Furniture and equipment are depreciated using the straight-line method over their three to seven year estimated useful lives. Building and improvements are depreciated using the straight-line method over their forty year estimated useful lives. Major renewals, betterments and replacements are capitalized. Maintenance and repairs are charged to expense as incurred.

8. Loan Costs

Loan costs are amortized to operations over the term of the respective loan on the straight-line method.

Amortization of loan costs after June 30, 2011 is as follows:

<u>Year Ending</u> <u>June 30,</u>	
2012	\$15,028
2013	1,151
2014	1,151

9. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Accounting Estimates

The presentation of financial statements in conformity with U.S. 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.

11. Income Taxes

Generally accepted accounting principles require that SUFS and SON recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

SUFS is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. At June 30, 2011 and 2010, there are no deferred tax assets and liabilities or current income tax expense.

SUFS has made an election under Section 501(h) of the Internal Revenue Code, which permits certain eligible 501(c)(3) organizations to make limited expenditures to influence legislation. SUFS would be subject to an excise tax if it spends more than the amounts permitted. Such limits have not been exceeded.

On November 22, 2011, SUFS requested a Private Letter Ruling from the Internal Revenue Service to determine whether its operations would be considered unrelated business taxable income. Until a response is received on the Private Letter Ruling from the Internal Revenue Service, SON the wholly-owned LLC, expects to be taxed as a for profit corporation. Management believes SON will not have taxable income for the year ended June 30, 2011. In making this determination, management has made certain allocations of costs and expenses against revenues recognized by SON. Management believes its methods of allocation are reasonable and supportable.

No interest or penalties resulting from an underpayment of income taxes have been recognized in the statement of activities or in the statement of financial position. SUFS and SON have no positions for which it believes it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. The tax years 2008 through 2011 remain subject to examination by the Internal Revenue Service.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Subsequent Events

SUFS has evaluated events and transactions for potential recognition or disclosure through December 27, 2011, which is the date the financial statements were available to be issued.

NOTE B - PROMISES TO GIVE

SUFS has received promises to give from Florida corporations for the Florida Tax Credit Scholarship Program. For the year ended June 30, 2011, SUFS received contributions and pledges of \$190,725,151, net of \$2,288,671 of funds transferred to another scholarship-funding organization, to fund the Florida Tax Credit Scholarship Program. For the year ended June 30, 2010, SUFS received contributions and pledges of \$89,924,250, net of \$1,600,000 of funds transferred to another scholarship-funding organization, to fund the Florida Tax Credit Scholarship Program. All promises to give are due during the succeeding fiscal year.

Pledges which become uncollectible in the year of the pledge are written off against contributions. Pledges which become uncollectible in subsequent years are written off to uncollectible pledge expense. Uncollectible pledge expense for the years ended June 30, 2011 and 2010 were \$1,893,333 and \$1,275,000, respectively. Management believes all pledges are fully collectible at June 30, 2011 and 2010.

NOTE C - SCHOLARSHIPS AWARDED

Scholarships under the Florida Tax Credit Scholarship Program are awarded annually to qualified students. To qualify for a scholarship, a student and the parents or guardian of that student must meet economic need requirements, enroll in an eligible private school and comply with certain other responsibilities for program participation. Scholarships for the 2010-2011 and 2009-2010 school years could not exceed \$4,106 and \$3,950, respectively. During the 2010-2011 and 2009-2010 school years SUFS funded scholarships of \$128,750,047 and \$100,952,918, respectively. The scholarship checks are made payable to the student's parent or guardian and are endorsed to the private school. The checks are remitted in quarterly installments, after receipt of a verification form from the school, to limit the risk that the student has withdrawn from the eligible private school or the student's parent or guardian has not complied with their responsibilities under the program. During the year ended June 30, 2010, SUFS recorded a bad debt of \$6,217 for amounts SUFS was unable to collect from certain schools for students who withdrew from the school and had a pro-rated balance remaining.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE C - SCHOLARSHIPS AWARDED - CONTINUED

Florida Statutes permit certain scholarship funding organizations participating in the Florida Tax Credit Scholarship Program to use up to 3% of eligible contributions received for administrative expenses. Scholarship funding organizations must expend for annual or partial-year scholarships an amount equal to or greater than 75% of the net eligible contributions remaining after administrative expenses during the fiscal year in which such contributions are collected. No more than 25% of such net eligible contributions may be carried forward for expenditure in the following state fiscal year. During the year ended June 30, 2011, SUFS collected \$128,495,306 of eligible contributions, net of \$2,288,671 transferred to another scholarship-funding organization. SUFS also carried forward \$5,096,828 of contributions from the fiscal year ended June 30, 2010 and earned \$14,927 of interest on the investment of these collected funds. SUFS claimed an administrative allowance of \$3,854,859, and expended \$128,570,027 for scholarships during the fiscal year ended June 30, 2011. During the year ended June 30, 2010, SUFS collected \$85,577,582 of eligible contributions, net of \$1,600,000 transferred to another scholarship-funding organization. SUFS also carried forward \$14,198,644 of contributions from the fiscal year ended June 30, 2009 and \$32,748 of interest earned on the investment of these collected funds. SUFS claimed an administrative allowance of \$2,485,367, and expended \$92,251,555 for scholarships during the fiscal year ended June 30, 2010.

NOTE D - LINE OF CREDIT

SUFS had a \$9,000,000 unsecured line of credit from a bank. On December 6, 2010, the loan was refinanced as a working capital line of credit, maturing on December 5, 2011. Interest at June 30, 2011 is 0.25%. The line of credit is collateralized by all substantially all assets of the organization.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE E - LONG-TERM DEBT

SUFS's long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
5.5% mortgage note payable to a bank in monthly installments of \$7,830, including interest through June 2014. Collateralized by a mortgage on real property and personally guaranteed by a private individual.	\$ 870,940	\$ 911,395
\$225,980 unsecured promissory note payable to an individual. Interest accrues monthly at LIBOR plus 1.5%. Principal and accrued interest is due at maturity in April 2015.	<u>230,736</u>	<u>226,675</u>
Total long-term debt	1,101,676	1,138,070
Less current maturities	<u>(46,656)</u>	<u>(44,249)</u>
	\$ <u>1,055,020</u>	\$ <u>1,093,821</u>

A summary of maturities of long-term debt for the years after June 30, 2011 follows:

Year ended <u>June 30,</u>	
2012	\$ 46,656
2013	49,448
2014	774,836
2015	<u>230,736</u>
	\$ <u>1,101,676</u>

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Florida Tax Credit Scholarship Program	\$ 100,218,786	\$ 43,976,908

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Florida Tax Credit Scholarship Program	\$ 130,643,341	\$ 102,234,135
Florida Tax Credit administration	575,235	-
School accountability	300,766	-
Communications - student recruiting	153,142	500
Development and fundraising	<u>8,000</u>	<u>28,000</u>
Total restrictions released	\$ <u>131,680,484</u>	\$ <u>102,262,635</u>

NOTE G - OPERATING LEASES

SUFS leases certain equipment under a noncancelable operating lease payable in quarterly installments of \$142 expiring in January 2013.

In September 2009, SUFS entered into a lease for office space in Jacksonville, Florida. The lease requires for monthly rent payments of \$3,681 through September 2011. In June 2010, SUFS moved its operations to new and larger office space in Jacksonville, Florida. The lease requires monthly rent payments of \$13,714 for the period July 1, 2010 through January 1, 2011, \$14,231 for the period February 1, 2011 through January 31, 2012, and \$14,749 for the period February 1, 2012 through January 1, 2013.

Rent expense for the fiscal year ended June 30, 2011 and 2010 was \$262,484 and \$85,261, respectively.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE G - OPERATING LEASES - CONTINUED

A summary of future lease payments under operating leases with terms in excess of one year follows:

Year ended <u>June 30,</u>	
2012	\$ 186,109
2013	104,237

NOTE H - MAJOR DONOR

Contributions and grants from one major donor accounted for approximately 11% of contributions and grants received for fiscal year 2010. The pledge from this donor was fully paid as of June 30, 2010. No single donor accounted for more than 10% of contributions or grants for 2011.

NOTE I - RETIREMENT PLAN

SUFS sponsors an Internal Revenue Code Section 401(k) qualified deferred compensation plan covering substantially all employees. SUFS made no contributions on behalf of participants during the fiscal years ending June 30, 2011 or 2010.

NOTE J - RELATED PARTY TRANSACTIONS

SUFS leases a portion of its facility to an individual who has loaned money on an unsecured basis and guaranteed the mortgage debt for SUFS. The lease required \$1,266 of rent per month. The lease was amended effective January 1, 2010 for a reduced space for \$483 per month. The lease provides for twelve month renewals expiring in August of each year. During 2011 and 2010, SUFS recognized \$5,790 and \$10,489, respectively, of rental income under this lease.

NOTE K - FAIR VALUE

Generally accepted accounting principles define fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

Step Up For Students, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE K - FAIR VALUE - CONTINUED

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities SUFS has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include SUFS's own data).

At June 30, 2011, SUFS had no assets or liabilities measured at fair value on a recurring basis.

The following table presents SUFS's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments owned:				
U.S. Government Securities				
money market account	\$ <u>4,497,467</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,497,467</u>



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO  
CHAPTER 10.700, RULES OF THE AUDITOR GENERAL  
AND SECTION 200.187, FLORIDA STATUTES**

To the Board of Directors of  
Step Up For Students, Inc.

*Compliance*

We have audited Step Up For Students, Inc.'s compliance with the types of compliance requirements described in the Rules of the Auditor General Chapter 10.700 and Section 220.187, Florida Statutes that are applicable for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants is the responsibility of Step Up For Students, Inc.'s management. Our responsibility is to express an opinion on Step Up For Students, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and Chapter 10.700, Rules of the Auditor General. Those standards and Chapter 10.700, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the financial statements occurred. An audit includes examining, on a test basis, evidence about Step Up For Students, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Step Up For Students, Inc.'s compliance with those requirements.

In our opinion, Step Up For Students, Inc. complied, in all material respects, with the requirements referred to above that are applicable for the year ended June 30, 2011. As discussed in Note C to the financial statements, we noted the following regarding the requirement that scholarship funding organizations must expend for annual or partial-year scholarships an amount equal to or greater than 75% of the net eligible contributions remaining after administrative expenses during the fiscal year in which such contributions are collected, and 25% of the total collected contributions may be carried forward for expenditure in the following state fiscal year. Step Up For Students received \$128,495,306 of cash receipts, net of \$2,288,671 of funds transferred to another scholarship-funding organization, from the Florida Tax Credit program during the fiscal year ended June 30, 2011. SUFS also carried forward \$5,096,828 of contributions from the fiscal year ended

June 30, 2010. SUFS also earned \$14,927 of interest on the investment of these collected funds. SUFS claimed an administrative allowance of \$3,854,859, and expended \$128,570,519 of the funds during the fiscal year ended June 30, 2011.

### *Internal Control Over Compliance*

Management of Step Up For Students, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered Step Up For Students, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on the financial statements to determine our auditing procedures for the purpose of expressing our opinion on compliance, and test and report on internal control over compliance in accordance with the Rules of the Auditor General Chapter 10.700 and Section 220.187, Florida Statutes, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Step Up For Students, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Board of Directors of Step Up For Students, Inc., the Florida Department of Education, the Executive Office of the Governor of the State of Florida, the State of Florida Office of the Auditor General, and the Florida Department of Revenue, and is not intended to be and should not be used by anyone other than these specified parties.

*Natherson + Company, P.A.*

Sarasota, Florida  
December 27, 2011