

Financial Statements Together with
Report of Independent Certified Public Accountants

THE CHILDREN'S SCHOLARSHIP FUND

For the years ended August 31, 2017 and 2016

THE CHILDREN'S SCHOLARSHIP FUND

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
The Children's Scholarship Fund

We have audited the accompanying financial statements of The Children's Scholarship Fund (the "Fund"), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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.

Auditor's responsibility

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 audits 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 auditor's 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 Fund'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 Fund'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 the Fund as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York

November 30, 2017

THE CHILDREN'S SCHOLARSHIP FUND
Statements of Financial Position
As of August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 13,978,732	\$ 11,788,234
Investments (Note 3)	3,495,350	2,998,890
Contributions receivable, net (Note 4)	798,165	696,336
Prepaid expenses and other assets	27,070	24,100
Deposits	39,129	39,129
Property and equipment, net (Note 5)	<u>24,394</u>	<u>42,232</u>
Total assets	<u>\$ 18,362,840</u>	<u>\$ 15,588,921</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 6,032	\$ 12,055
Refundable advances	962,500	42,523
Accrued expenses	<u>116,086</u>	<u>74,578</u>
Total liabilities	<u>1,084,618</u>	<u>129,156</u>
CONTINGENCIES		
NET ASSETS		
Unrestricted	1,748,216	1,718,839
Temporarily restricted (Note 6)	<u>15,530,006</u>	<u>13,740,926</u>
Total net assets	<u>17,278,222</u>	<u>15,459,765</u>
Total liabilities and net assets	<u>\$ 18,362,840</u>	<u>\$ 15,588,921</u>

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

THE CHILDREN'S SCHOLARSHIP FUND
Statement of Activities
For the year ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 336,434	\$ 23,385,613	\$ 23,722,047
Fundraising events (net of costs of direct benefits to donors of \$12,165)	-	124,165	124,165
Investment and other income	<u>88,496</u>	<u>-</u>	<u>88,496</u>
Total operating revenues and support	424,930	23,509,778	23,934,708
Net assets released from restrictions (Note 6)	<u>21,720,698</u>	<u>(21,720,698)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>22,145,628</u>	<u>1,789,080</u>	<u>23,934,708</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 7)	19,899,322	-	19,899,322
Program management, outreach and support	<u>989,546</u>	<u>-</u>	<u>989,546</u>
Total program services	<u>20,888,868</u>	<u>-</u>	<u>20,888,868</u>
Support services:			
Management and general	417,534	-	417,534
Fundraising	<u>809,849</u>	<u>-</u>	<u>809,849</u>
Total support services	<u>1,227,383</u>	<u>-</u>	<u>1,227,383</u>
Total operating expenses	<u>22,116,251</u>	<u>-</u>	<u>22,116,251</u>
Changes in net assets	29,377	1,789,080	1,818,457
Net assets, beginning of year	<u>1,718,839</u>	<u>13,740,926</u>	<u>15,459,765</u>
Net assets, end of year	<u>\$ 1,748,216</u>	<u>\$ 15,530,006</u>	<u>\$ 17,278,222</u>

The accompanying notes are an integral part of this financial statement.

THE CHILDREN'S SCHOLARSHIP FUND
Statement of Activities
For the year ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 388,811	\$ 23,881,889	\$ 24,270,700
Fundraising events (net of costs of direct benefits to donors of \$10,135)	-	157,328	157,328
Investment and other income	<u>26,287</u>	<u>-</u>	<u>26,287</u>
Total operating revenues and support	415,098	24,039,217	24,454,315
Net assets released from restrictions (Note 6)	<u>22,046,682</u>	<u>(22,046,682)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>22,461,780</u>	<u>1,992,535</u>	<u>24,454,315</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 7)	20,413,581	-	20,413,581
Program management, outreach and support	<u>827,322</u>	<u>-</u>	<u>827,322</u>
Total program services	<u>21,240,903</u>	<u>-</u>	<u>21,240,903</u>
Support services:			
Management and general	369,572	-	369,572
Fundraising	<u>777,356</u>	<u>-</u>	<u>777,356</u>
Total support services	<u>1,146,928</u>	<u>-</u>	<u>1,146,928</u>
Total operating expenses	<u>22,387,831</u>	<u>-</u>	<u>22,387,831</u>
Changes in net assets	73,949	1,992,535	2,066,484
Net assets, beginning of year	<u>1,644,890</u>	<u>11,748,391</u>	<u>13,393,281</u>
Net assets, end of year	<u>\$ 1,718,839</u>	<u>\$ 13,740,926</u>	<u>\$ 15,459,765</u>

The accompanying notes are an integral part of this financial statement.

THE CHILDREN'S SCHOLARSHIP FUND
Statements of Cash Flows
For the years ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 24,664,360	\$ 24,545,978
Investment and other income	88,496	26,287
Scholarships paid	(19,892,353)	(20,403,570)
Matching grants for program support	(6,969)	(10,011)
Cash paid to vendors, suppliers and employees	<u>(2,158,874)</u>	<u>(1,924,162)</u>
Net cash provided by operating activities	<u>2,694,660</u>	<u>2,234,522</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(6,488,146)	(2,998,890)
Sales of investments	5,991,686	-
Purchases of property and equipment	<u>(7,702)</u>	<u>(17,745)</u>
Net increase (decrease) in cash and cash equivalents	2,190,498	(782,113)
Cash and cash equivalents, beginning of year	<u>11,788,234</u>	<u>12,570,347</u>
Cash and cash equivalents, end of year	<u>\$ 13,978,732</u>	<u>\$ 11,788,234</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets	\$ 1,818,457	\$ 2,066,484
Adjustment to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	25,540	24,387
Change in present value discount and allowance	(22,385)	22,926
Changes in assets and liabilities:		
(Increase) decrease in contributions receivable, net	(79,444)	65,427
Increase in prepaid expenses and other assets	(2,970)	(929)
Increase in refundable advances	919,977	29,597
Decrease in accounts payable	(6,023)	(1,731)
Increase in accrued expenses	<u>41,508</u>	<u>28,361</u>
Net cash provided by operating activities	<u>\$ 2,694,660</u>	<u>\$ 2,234,522</u>

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

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2017 and 2016

1. THE CHILDREN'S SCHOLARSHIP FUND

The Children's Scholarship Fund ("CSF" or the "Fund") is a not-for-profit charitable organization which was formed on April 28, 1998 for the purpose of expanding educational opportunities available to low-income families. CSF provides partial tuition assistance to families in need so children can attend the K-8 schools that best meet their needs, regardless of their ability to pay or where they live. In furtherance of its mission, CSF makes matching grants to other scholarship organizations so they may also provide partial scholarship awards to children from low-income families.

Since CSF's first scholarships were awarded in 1999, nearly 158,000 children from low-income families have received tuition assistance through CSF grants. See Note 7 for additional information.

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as an organization which is not a private foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Accordingly, the Fund's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets as follows:

Unrestricted Net Assets - consist of all funds which are expendable, at the discretion of the Fund's management and Board of Directors for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose.

Temporarily Restricted Net Assets - net assets that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Fund pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - net assets resulting from contributions and other inflows of assets whose use by the Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund.

The Fund did not have any permanently restricted net assets as of August 31, 2017 and 2016.

Cash and Cash Equivalents

Cash equivalents include short-term highly liquid investments with original maturities at the time of purchase of three months or less.

Investments

Investments in Treasury bills and Certificates of deposit are stated at their fair value in the statements of financial position. Net realized and unrealized gains and losses for the period are shown in the statements of activities.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2017 and 2016

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The capitalization policy requires all assets greater than \$500 with a useful life of greater than one (1) year to be capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Equipment & Computer Systems	3 years
Furniture and fixtures	5 years
Leasehold improvements	Useful life of the asset or the life of the lease, whichever is shorter

Contributions

The Fund records contributions when an unconditional promise to give is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as either permanently restricted, temporarily restricted, or unrestricted, based on donor imposed restrictions, if any. Unconditional promises to give with payments due in future years are reported as temporarily restricted contributions and discounted to present value using a credit adjusted rate of return. An allowance for uncollectible contributions receivable is provided based on management judgment including such factors as prior collection history and type of contribution. Contributions receivable are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely, and any amounts subsequently collected are recorded as income in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Conditional contributions received in advance of meeting the associated conditions are recorded as refundable advances on the statement of financial position.

Scholarship Awards

CSF awards partial scholarships so that children from low-income families can attend the private or parochial school of their choice. These scholarships are recorded as an expense at the time they become unconditional, which is usually when the student attends their chosen school.

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

Concentrations of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents. The Fund maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Fund's cash accounts were placed with high credit quality financial institutions and the Fund has not experienced, nor does it anticipate, any losses in such accounts.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2017 and 2016

Fair Value of Financial Instruments

The Fund follows guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The guidance also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities, subject to the guidance, measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

The carrying amounts of cash and cash equivalents, investments, contributions receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate fair value due to the short-term maturity of these financial instruments.

Income Taxes

The Fund follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Fund has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which there was nexus; and to identify and evaluate other matters that may be considered tax positions. The Fund has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2017 and 2016

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. Such reclassifications had no impact on total assets, liabilities, revenues, expenses, or changes in net assets as previously presented in the fiscal 2016 financial statements.

3. INVESTMENT

The composition of the Fund's investments as of August 31, 2017 and 2016 was as follows:

	2017		2016	
	Level 1	Total	Level 1	Total
US Treasury Bills	\$ 2,995,350	\$ 2,995,350	\$ 2,998,890	\$ 2,998,890
Certificates of deposit		500,000		-
Total		<u>\$ 3,495,350</u>		<u>\$ 2,998,890</u>

The Fund's investment in certificates of deposit of \$500,000 as of August 31, 2017 is classified within investments and is carried at amortized cost, however this investment does not qualify as a security as defined by the guidance, and as such, fair value disclosures are not provided.

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of August 31, 2017 and 2016 consist of the following:

	2017	2016
Amounts expected to be collected		
In one year or less	\$ 557,203	\$ 256,509
In greater than one year	<u>258,125</u>	<u>479,375</u>
	815,328	735,884
Less: Discount to present value (at a discount rate of 3.5% in 2017 and 2016)	<u>(17,163)</u>	<u>(39,548)</u>
Contributions receivable, net	<u>\$ 798,165</u>	<u>\$ 696,336</u>

At August 31, 2017 and 2016, all of the net receivables are restricted for scholarship awards.

In addition, as of August 31, 2017, CSF has received conditional promises totaling approximately \$31.2 million (\$25.4 million of which are restricted for scholarship awards). These gifts are primarily conditioned on satisfying matching fund requirements by CSF and/or its grantee scholarship organizations and accordingly have not been recognized in the accompanying financial statements.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2017 and 2016

5. PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Office and computer equipment and systems	\$ 92,934	\$ 94,227
Furniture and fixtures	5,300	5,300
Leasehold improvements	<u>10,690</u>	<u>10,690</u>
	108,924	110,217
Less: Accumulated depreciation and amortization	<u>(84,530)</u>	<u>(67,985)</u>
Property and equipment, net	<u>\$ 24,394</u>	<u>\$ 42,232</u>

Depreciation expense for the years ended August 31, 2017 and 2016 was approximately \$26,000 and \$24,000, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of approximately \$15,530,000 and \$13,741,000 at August 31, 2017 and 2016, respectively, are primarily available for scholarships and grants. Net assets were released from donor restrictions by satisfying the restricted purpose as follows:

	<u>2017</u>	<u>2016</u>
Scholarships and grants	\$ 19,892,353	\$ 20,403,569
Matching grants for program support costs	6,969	10,011
Expended for operating costs	<u>1,821,376</u>	<u>1,633,102</u>
	<u>\$ 21,720,698</u>	<u>\$ 22,046,682</u>

7. SCHOLARSHIPS AND GRANTS PAYABLE, NET

CSF awards partial scholarships so that children from low income families can attend the private or parochial school of their choice. In addition, CSF makes matching grants to other scholarship organizations so they may also provide partial scholarship awards to children from low income families. During the years ended August 31, 2017 and 2016, the total value of the scholarship payments made by CSF and its grantee scholarship organizations amounted to approximately \$40,929,000 and \$40,546,000, respectively. CSF distributed approximately \$19,892,000 during fiscal year 2017 and approximately \$20,404,000 of these awards during fiscal year 2016. The remaining \$21,037,000 in 2017 and \$20,142,000 in 2016 was funded by matching contributions received by the other scholarship organizations.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2017 and 2016

Additionally, for the years ended August 31, 2017 and 2016, CSF made grant payments to scholarship organizations totaling approximately \$7,000 and \$10,000, respectively, for program support costs. The program support grants are generally provided on the basis of one dollar for every two dollars of contributions received by these organizations. The amount of program support costs eligible for matching grants is limited to 10% of scholarship costs.

There were no unconditional scholarships and grants payable as of August 31, 2017 and 2016.

8. EMPLOYEE BENEFIT PLAN

CSF has a defined contribution retirement plan which provides for CSF to make matching contributions of up to 5% of the compensation of eligible employees. The plan allows the participants to make voluntary contributions subject to Internal Revenue Service limitations. CSF incurred approximately \$65,000 and \$54,000 in pension expense relating to this plan for the years ended August 31, 2017 and 2016, respectively.

9. COMMITMENTS AND CONTINGENCIES

CSF leases office space in New York City with a lease term that expires on April 30, 2022. Rent expense for the years ended August 31, 2017 and 2016 was approximately \$160,000 and \$142,000, respectively. The minimum annual future rental payments for the Fund's noncancelable operating lease are as follows:

2018	\$ 206,000
2019	210,000
2020	215,000
2021	220,000
2022	<u>154,000</u>
Total	<u>\$ 1,005,000</u>

As of August 31, 2017, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$5.6 million for the purpose of awarding scholarships to children from low-income families that are in kindergarten through eighth grade. These grants are subject to the satisfaction of stipulated conditions, including the achievement of matching fund requirements. If these conditions are satisfied, expenditures are recognized and payments will be made during the year ending August 31, 2018.

10. SUBSEQUENT EVENTS

CSF evaluated its August 31, 2017 financial statements for subsequent events through November 30, 2017, the date the financial statements were available to be issued. CSF is not aware of any subsequent events which would require recognition or disclosure in the financial statements.