

Financial Statements Together with
Report of Independent Certified Public
Accountants

The Children's Scholarship Fund

For the year ended August 31, 2020
with summarized comparative financial information
for the year ended August 31, 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying financial statements of The Children's Scholarship Fund (the "Fund"), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Children's Scholarship Fund as of August 31, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2019 summarized comparative information

We have previously audited the Fund's 2019 financial statements (not presented herein), and we expressed unmodified audit opinion on those audited financial statements in our report dated November 26, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended August 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York
November 16, 2020

The Children's Scholarship Fund
STATEMENT OF FINANCIAL POSITION

As of August 31, 2020
with summarized comparative information as of August 31, 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 19,764,980	\$ 16,257,142
Investments (Note C)	5,582,887	5,535,220
Contributions receivable, net (Note D)	38,860	283,784
Prepaid expenses and other assets	19,766	24,904
Deposits	39,129	39,129
Property and equipment, net (Note E)	31,172	31,058
Total assets	\$ 25,476,794	\$ 22,171,237
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 369	\$ 16,815
Refundable advances	261,105	45,690
Accrued expenses	96,384	73,101
Total liabilities	357,858	135,606
 CONTINGENCIES		
NET ASSETS		
Without donor restrictions	5,758,378	4,285,331
With donor restrictions (Note F)	19,360,558	17,750,300
	25,118,936	22,035,631
Total liabilities and net assets	\$ 25,476,794	\$ 22,171,237

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, 2020
with summarized comparative totals for the year end August 31, 2019

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING REVENUES AND SUPPORT				
Contributions	\$ 1,380,618	\$ 25,836,832	\$ 27,217,450	\$ 25,459,043
Fundraising events (net of costs of direct donors benefits of \$1,890)	-	40,155	40,155	235,295
Investment and other income	336,201	-	336,201	474,169
Total operating revenues and support	1,716,819	25,876,987	27,593,806	26,168,507
Net assets released from restrictions (Note F)	24,266,729	(24,266,729)	-	-
Total operating revenues, support and net assets released from restrictions	25,983,548	1,610,258	27,593,806	26,168,507
OPERATING EXPENSES				
Program services:				
Scholarships and grants (Note G)	22,172,666	-	22,172,666	21,782,534
Program management, outreach and support	928,908	-	928,908	940,060
Total program services	23,101,574	-	23,101,574	22,722,594
Support services:				
Management and general	469,131	-	469,131	479,014
Fundraising	939,796	-	939,796	995,199
Total support services	1,408,927	-	1,408,927	1,474,213
Total operating expenses	24,510,501	-	24,510,501	24,196,807
Changes in net assets	1,473,047	1,610,258	3,083,305	1,971,700
Net assets, beginning of year	4,285,331	17,750,300	22,035,631	20,063,931
Net assets, end of year	<u>\$ 5,758,378</u>	<u>\$ 19,360,558</u>	<u>\$ 25,118,936</u>	<u>\$ 22,035,631</u>

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

The Children's Scholarship Fund

STATEMENT OF FUNCTIONAL EXPENSES

**For the year ended August 31, 2020
with summarized comparative totals for the year end August 31, 2019**

	Program Services	Support Services		2020 Total Expenses	2019 Total Expenses
		Fundraising	Management and General		
Scholarships and grants	\$22,172,666	\$ -	\$ -	\$22,172,666	\$21,782,534
Salaries	610,175	609,410	294,216	1,513,801	1,426,134
Payroll taxes	39,632	38,600	14,171	92,403	84,701
Employee benefits	87,664	66,697	30,206	184,567	174,427
Occupancy costs	105,256	99,325	20,200	224,781	223,296
Professional fees	12,753	12,035	87,113	111,901	167,554
Donor communication costs	-	31,652	-	31,652	40,198
Event costs	4,023	15,295	-	19,318	104,680
Offices expenses	12,259	13,149	3,054	28,462	33,638
Information technology	27,402	16,154	947	44,503	45,365
Travel	3,190	8,425	11,167	22,782	46,644
Depreciation and amortization	11,155	5,546	1,128	17,829	16,280
Insurance	14,793	13,960	2,839	31,592	30,096
Miscellaneous	606	9,548	4,090	14,244	21,260
Total expenses	\$23,101,574	\$ 939,796	\$ 469,131	\$24,510,501	\$24,196,807

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

The Children's Scholarship Fund

STATEMENT OF CASH FLOWS

As of August 31, 2020
with summarized comparative information as of August 31, 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 27,719,834	\$ 25,492,344
Investment and other income	336,201	474,169
Scholarships and grants paid	(22,172,666)	(21,782,534)
Cash paid to vendors, suppliers and employees	<u>(2,309,922)</u>	<u>(2,383,986)</u>
Net cash provided by operating activities	<u>3,573,447</u>	<u>1,799,993</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,086,164)	(9,980,357)
Sales of investments	11,038,497	8,446,455
Purchases of property and equipment	<u>(17,942)</u>	<u>(16,582)</u>
Net cash used in investing activities	(65,609)	(1,550,484)
Net increase in cash and cash equivalents	3,507,838	249,509
Cash and cash equivalents, beginning of year	<u>16,257,142</u>	<u>16,007,633</u>
Cash and cash equivalents, end of year	<u>\$ 19,764,980</u>	<u>\$ 16,257,142</u>

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

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2020 and 2019

NOTE A - 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 180,000 children from low-income families have received tuition assistance through CSF grants. See Note G 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.

In March 2020, the World Health Organization officially declared COVID-19, a disease caused by the novel coronavirus, a pandemic. The outbreak has adversely affected the level of economic activity around the world and disrupted normal business activity in every sector of the economy. Due to the many uncertainties associated with the pandemic, management is unable to determine the impact it may have on the Fund's financial condition and future results, or the implications on the Fund's ability to raise contributions and to continue providing the current level of tuition assistance.

NOTE B - 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").

The Fund's financial statements distinguish between net assets and changes in net assets without donor restrictions and those with donor restrictions as follows:

Net assets without donor restrictions - 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.

Net assets with donor restrictions - 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 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 THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

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 year to be capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

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

Contributions

The Fund recognizes revenue from contributions in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, the Fund evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be a contribution, the Fund evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Fund is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. 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 without donor restrictions or with donor restrictions, based on donor-imposed restrictions, if any.

Unconditional promises to give with payments due in future years are reported as contributions with donor restrictions 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.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis based on either financial or non-financial data, such as the number of employees or estimates of time and effort incurred by personnel.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

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.

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.

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 Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

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.

Presentation of Certain Prior Year Summarized Information

The accompanying financial statements include prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements as of and for the year ended August 31, 2019, from which the summarized comparative information was derived.

NOTE C - INVESTMENTS

The composition of the Fund's investments as of August 31, 2020 and 2019 were comprised solely of US Treasury Bills and were classified within Level 1 of the fair value hierarchy.

NOTE D - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of August 31, 2020 and 2019 consist of the following:

	2020	2019
Amounts expected to be collected		
In one year or less	\$ 29,525	\$ 256,715
In greater than one year	10,000	30,000
	39,525	286,715
Less: Discount to present value (at a discount rate of 3.5% in 2020 and 2019)	(665)	(2,931)
Contributions receivable, net	<u>\$ 38,860</u>	<u>\$ 283,784</u>

At August 31, 2020 and 2019, all of the net receivables are restricted for scholarship awards.

In addition, as of August 31, 2020, CSF has received conditional promises totaling approximately \$25.6 million (\$20.6 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 THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2020 and 2019 consisted of the following:

	2020	2019
Office and computer equipment and systems	\$ 116,300	\$ 108,083
Furniture and fixtures	5,300	5,300
Leasehold improvements	11,975	10,690
	133,575	124,073
Less: Accumulated depreciation and amortization	(102,403)	(93,015)
Property and equipment, net	\$ 31,172	\$ 31,058

Depreciation expense for the years ended August 31, 2020 and 2019 was approximately \$18,000 and \$16,000, respectively.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of approximately \$19,361,000 and \$17,750,000 at August 31, 2020 and 2019, respectively, are primarily available for scholarships and grants.

Net assets were released from donor restrictions by satisfying the restricted purpose as follows:

	2020	2019
Scholarships and grants	\$ 22,172,666	\$ 21,782,534
Expended for operating costs	2,094,063	2,049,479
	\$ 24,266,729	\$ 23,832,013

NOTE G - SCHOLARSHIPS AND GRANTS

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, 2020 and 2019, the total value of the scholarship payments made by CSF and other grantee scholarship organizations amounted to approximately \$48,936,000 and \$49,180,000, respectively. CSF distributed approximately \$22,173,000 of these awards during fiscal year 2020 and approximately \$21,783,000 of these awards during fiscal year 2019. The remaining \$26,763,000 in 2020 and remaining \$27,397,000 in 2019 was funded by matching contributions provided by the other scholarship organizations.

There were no unconditional scholarships and grants payable as of August 31, 2020 and 2019.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

NOTE H - 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 \$68,000 and \$64,000 in pension expense relating to this plan for the years ended August 31, 2020 and 2019, respectively.

NOTE I - COMMITMENTS AND CONTINGENCIES

CSF leases office space in New York City with a lease term that expires on April 30, 2022. CSF incurred approximately \$208,000 and \$199,000 in rent expense for the years ended August 31, 2020 and 2019, respectively. The minimum annual future rental payments for the Fund's noncancelable operating lease are as follows:

2021	\$	220,000
2022		<u>150,000</u>
Total	\$	<u>370,000</u>

As of August 31, 2020, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$5.8 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 years ending August 31, 2021 and 2022.

NOTE J - AVAILABLE RESOURCES AND LIQUIDITY

The Fund considers contributions without donor restrictions and investment income without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include management and general expenses, fundraising expenses and program management, outreach and support expenses.

In addition, the Fund receives significant contributions with donor restrictions that are used to fund scholarships and matching grants to other scholarship organizations. During fiscal year 2020, the Fund received donor restricted contributions for scholarships and matching grants of approximately \$23,783,000.

The Fund manages its financial assets to meet general expenditures, liabilities and scholarship and matching grant obligations as they come due. The Fund invests cash in excess of its near term requirements in various short-term investments including money market funds, US Treasury Bills and certificates of deposit.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2020 and 2019

The table below presents financial assets available for general expenditures within one year at August 31, 2020:

Cash and cash equivalents	\$ 19,764,980
Investments	5,582,887
Contributions receivable	<u>38,860</u>
Total financial assets	<u>25,386,727</u>
Less amounts not available to be used within one year:	
Contributions receivable due in more than one year	(10,000)
Donor contributions restricted for scholarships and grants	<u>(19,360,558)</u>
Financial assets not available to be used within one year	<u>(19,370,558)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,016,169</u>

NOTE K - SUBSEQUENT EVENTS

CSF evaluated its August 31, 2020 financial statements for subsequent events through November 16, 2020, the date the financial statements were available to be issued. CSF is not aware of any subsequent events that would require recognition or disclosure in the financial statements.