

Financial Statements Together with
Report of Independent Certified Public
Accountants

The Children's Scholarship Fund

For the year ended August 31, 2019
with summarized comparative financial information
for the year ended August 31, 2018

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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, 2019, 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, 2019 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 2018 summarized comparative information

We have previously audited the Fund's 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 26, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended August 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York
November 26, 2019

The Children's Scholarship Fund
STATEMENT OF FINANCIAL POSITION

As of August 31, 2019
with summarized comparative information as of June 30, 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 16,257,142	\$ 16,007,633
Investments (Note C)	5,535,220	4,001,318
Contributions receivable, net (Note D)	283,784	302,734
Prepaid expenses and other assets	24,904	25,095
Deposits	39,129	39,129
Property and equipment, net (Note E)	31,058	30,755
Total assets	\$ 22,171,237	\$ 20,406,664
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 16,815	\$ 2,636
Refundable advances	45,690	274,484
Accrued expenses	73,101	65,613
Total liabilities	135,606	342,733
 CONTINGENCIES		
NET ASSETS		
Without donor restrictions	4,285,331	2,921,342
With donor restrictions (Note F)	17,750,300	17,142,589
	22,035,631	20,063,931
Total liabilities and net assets	\$ 22,171,237	\$ 20,406,664

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, 2019
with summarized comparative totals for the year end August 31, 2018**

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING REVENUES AND SUPPORT				
Contributions	\$ 1,254,614	\$ 24,204,429	\$ 25,459,043	\$ 27,919,313
Fundraising events (net of costs of direct donors benefits of \$7,850)	-	235,295	235,295	568,102
Investment and other income	474,169	-	474,169	273,704
Total operating revenues and support	1,728,783	24,439,724	26,168,507	28,761,119
Net assets released from restrictions (Note F)	23,832,013	(23,832,013)	-	-
Total operating revenues, support and net assets released from restrictions	25,560,796	607,711	26,168,507	28,761,119
OPERATING EXPENSES				
Program services:				
Scholarships and grants (Note G)	21,782,534	-	21,782,534	23,480,966
Program management, outreach and support	940,060	-	940,060	965,662
Total program services	22,722,594	-	22,722,594	24,446,628
Support services:				
Management and general	479,014	-	479,014	432,503
Fundraising	995,199	-	995,199	1,096,279
Total support services	1,474,213	-	1,474,213	1,528,782
Total operating expenses	24,196,807	-	24,196,807	25,975,410
Changes in net assets	1,363,989	607,711	1,971,700	2,785,709
Net assets, beginning of year	2,921,342	17,142,589	20,063,931	17,278,222
Net assets, end of year	\$ 4,285,331	\$ 17,750,300	\$ 22,035,631	\$ 20,063,931

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, 2019
with summarized comparative totals for the year end August 31, 2018**

	Program Services	Support Services		2019 Total Expenses	2018 Total Expenses
		Fundraising	Management and General		
Scholarships and grants	\$ 21,782,534	\$ -	\$ -	\$ 21,782,534	\$ 23,480,966
Salaries	589,343	554,194	282,597	1,426,134	1,479,530
Payroll taxes	37,533	35,022	12,146	84,701	91,075
Employee benefits	82,280	62,581	29,566	174,427	179,505
Occupancy costs	102,692	101,279	19,325	223,296	215,906
Professional fees	27,262	45,894	94,398	167,554	107,195
Donor communication costs	-	40,198	-	40,198	35,916
Event costs	26,087	78,593	-	104,680	200,274
Offices expenses	15,013	15,360	3,265	33,638	42,191
Information technology	27,816	16,682	867	45,365	37,765
Travel	5,303	17,317	24,024	46,644	37,243
Depreciation and amortization	12,798	2,924	558	16,280	20,190
Insurance	13,841	13,650	2,605	30,096	29,764
Miscellaneous	92	11,505	9,663	21,260	17,890
Total expenses	\$ 22,722,594	\$ 995,199	\$ 479,014	\$ 24,196,807	\$ 25,975,410

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

The Children's Scholarship Fund

STATEMENT OF CASH FLOWS

**For the year ended August 31, 2019
with summarized comparative information for the year end August 31, 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 25,492,344	\$ 28,294,830
Investment and other income	474,169	273,704
Scholarships and grants paid	(21,782,534)	(23,480,966)
Cash paid to vendors, suppliers and employees	<u>(2,383,986)</u>	<u>(2,526,148)</u>
Net cash provided by operating activities	<u>1,799,993</u>	<u>2,561,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(9,980,357)	(6,958,936)
Sales of investments	8,446,455	6,452,968
Purchases of property and equipment	<u>(16,582)</u>	<u>(26,551)</u>
Net increase in cash and cash equivalents	249,509	2,028,901
Cash and cash equivalents, beginning of year	<u>16,007,633</u>	<u>13,978,732</u>
Cash and cash equivalents, end of year	<u>\$ 16,257,142</u>	<u>\$ 16,007,633</u>

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

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2019 and 2018

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 174,000 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.

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").

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). ASU 2016-14 requires the presentation of two net asset classes, which are based on the existence or absence of donor restrictions. ASU 2016-14 also modifies other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader including quantitative and qualitative information on liquidity. The Fund adopted ASU 2016-14 as of and for the year ended August 31, 2019 and has applied the amendments retrospectively as required by the standard.

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.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2019 and 2018

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.

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 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.

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.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2019 and 2018

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 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

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2019 and 2018

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, 2018, from which the summarized comparative information was derived.

NOTE C - INVESTMENTS

The composition of the Fund's investments as of August 31, 2019 and 2018 was as follows:

	2019		2018	
	Level 1	Total	Level 1	Total
US Treasury Bills	\$ 5,535,220	\$ 5,535,220	\$ 4,001,318	\$ 4,001,318

NOTE D - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of August 31, 2019 and 2018 consist of the following:

	2019	2018
Amounts expected to be collected		
In one year or less	\$ 256,715	\$ 267,245
In greater than one year	30,000	40,000
	286,715	307,245
Less: Discount to present value (at a discount rate of 3.5% in 2019 and 2018)	(2,931)	(4,511)
Contributions receivable, net	\$ 283,784	\$ 302,734

At August 31, 2019 and 2018, all of the net receivables are restricted for scholarship awards.

In addition, as of August 31, 2019, CSF has received conditional promises totaling approximately \$16 million (\$14 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, 2019 and 2018

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2019 and 2018 consisted of the following:

	2019	2018
Office and computer equipment and systems	\$ 108,083	\$ 104,084
Furniture and fixtures	5,300	5,300
Leasehold improvements	10,690	10,690
	124,073	120,074
Less: Accumulated depreciation and amortization	(93,015)	(89,319)
Property and equipment, net	\$ 31,058	\$ 30,755

Depreciation expense for the years ended August 31, 2019 and 2018 was approximately \$16,000 and \$20,000, respectively.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of approximately \$17,750,000 and \$17,143,000 at August 31, 2019 and 2018, respectively, are primarily available for scholarships and grants.

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

	2019	2018
Scholarships and grants	\$ 21,782,534	\$ 23,480,966
Expended for operating costs	2,049,479	2,141,407
	\$ 23,832,013	\$ 25,622,373

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 year ended August 31, 2019 and 2018, the total value of the scholarship payments made by CSF and other grantee scholarship organizations amounted to approximately \$49,180,000 and \$45,275,000, respectively. CSF distributed approximately \$21,783,000 of these awards during fiscal year 2019 and approximately \$23,481,000 of these awards during fiscal year 2018. The remaining \$27,397,000 in 2019 and remaining \$21,794,000 in 2018 was funded by matching contributions provided by the other scholarship organizations.

There were no unconditional scholarships and grants payable as of August 31, 2019 and 2018.

The Children's Scholarship Fund

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

August 31, 2019 and 2018

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 \$64,000 and \$71,000 in pension expense relating to this plan for the year ended August 31, 2019 and 2018, respectively.

NOTE I - 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 year ended August 31, 2019 and 2018 was approximately \$199,000 and \$191,000, respectively. The minimum annual future rental payments for the Fund's noncancelable operating lease are as follows:

2020	\$	215,000
2021		220,000
2022		<u>150,000</u>
Total	\$	<u>585,000</u>

As of August 31, 2019, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$3.7 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, 2020.

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 2019 the Fund received donor restricted contributions for scholarships and matching grants of approximately \$22,390,000.

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, 2019 and 2018

The table below presents financial assets available for general expenditures within one year at August 31, 2019:

Cash and cash equivalents	\$ 16,257,142
Investments	5,535,220
Contributions receivable	<u>283,784</u>
Total Financial assets	<u>22,076,146</u>
Less amounts not available to be used within one year:	
Contributions receivable due in more than one year	(30,000)
Donor Contributions restricted for scholarships and grants	<u>(17,750,300)</u>
Financial assets not available to be used within one year	<u>(17,780,300)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,295,846</u>

NOTE K - SUBSEQUENT EVENTS

CSF evaluated its August 31, 2019 financial statements for subsequent events through November 26, 2019 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.