

**Financial Statements Together with
Report of Independent Certified Public Accountants**

THE CHILDREN'S SCHOLARSHIP FUND

For the years ended August 31, 2010 and 2009

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 statements of financial position of The Children's Scholarship Fund (the "Fund") as of August 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of The Children's Scholarship Fund as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
November 15, 2010

THE CHILDREN'S SCHOLARSHIP FUND
Statements of Financial Position
As of August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 11,046,859	\$ 9,904,130
Contributions receivable, net (Note 3)	531,311	1,025,896
Prepaid expenses and other assets	19,070	19,597
Deposits	39,129	39,129
Property and equipment, net (Note 4)	<u>35,463</u>	<u>44,496</u>
Total assets	<u>\$ 11,671,832</u>	<u>\$ 11,033,248</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Scholarships and grants payable, net (Note 6)	\$ 26,992	\$ 44,862
Accounts payable	9,249	5,917
Refundable advances	120,701	127,121
Accrued expenses	<u>51,755</u>	<u>92,283</u>
Total liabilities	<u>208,697</u>	<u>270,183</u>
NET ASSETS		
Unrestricted	2,106,221	2,082,410
Temporarily restricted (Note 5)	<u>9,356,914</u>	<u>8,680,655</u>
Total net assets	<u>11,463,135</u>	<u>10,763,065</u>
Total liabilities and net assets	<u>\$ 11,671,832</u>	<u>\$ 11,033,248</u>

The accompanying notes are an integral part of these statements.

THE CHILDREN'S SCHOLARSHIP FUND
Statement of Activities
For the year ended August 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 281,204	\$ 30,572,441	\$ 30,853,645
Investment income	8,100	-	8,100
Other income	2,965	-	2,965
	<u>292,269</u>	<u>30,572,441</u>	<u>30,864,710</u>
Total operating revenues and support			
Net assets released from restrictions (Note 5)	<u>29,896,182</u>	<u>(29,896,182)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>30,188,451</u>	<u>676,259</u>	<u>30,864,710</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 6)	28,532,426	-	28,532,426
Program management, outreach and support	811,218	-	811,218
	<u>29,343,644</u>	<u>-</u>	<u>29,343,644</u>
Total program services			
Support services:			
Management and general	277,096	-	277,096
Fundraising	543,900	-	543,900
	<u>820,996</u>	<u>-</u>	<u>820,996</u>
Total support services			
Total operating expenses	<u>30,164,640</u>	<u>-</u>	<u>30,164,640</u>
Changes in net assets	23,811	676,259	700,070
Net assets, beginning of year	<u>2,082,410</u>	<u>8,680,655</u>	<u>10,763,065</u>
Net assets, end of year	<u>\$ 2,106,221</u>	<u>\$ 9,356,914</u>	<u>\$ 11,463,135</u>

The accompanying notes are an integral part of this statement.

THE CHILDREN'S SCHOLARSHIP FUND

Statement of Activities

For the year ended August 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 197,379	\$ 31,331,103	\$ 31,528,482
Investment income	40,972	-	40,972
Other income	2,400	-	2,400
	<u>240,751</u>	<u>31,331,103</u>	<u>31,571,854</u>
Total operating revenues and support			
Net assets released from restrictions (Note 5)	<u>29,570,829</u>	<u>(29,570,829)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>29,811,580</u>	<u>1,760,274</u>	<u>31,571,854</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 6)	28,160,829	-	28,160,829
Program management, outreach and support	856,552	-	856,552
	<u>29,017,381</u>	<u>-</u>	<u>29,017,381</u>
Total program services			
Support services:			
Management and general	381,264	-	381,264
Fundraising	365,684	-	365,684
	<u>746,948</u>	<u>-</u>	<u>746,948</u>
Total support services			
Total operating expenses	<u>29,764,329</u>	<u>-</u>	<u>29,764,329</u>
Changes in net assets	47,251	1,760,274	1,807,525
Net assets, beginning of year	<u>2,034,159</u>	<u>6,920,381</u>	<u>8,955,540</u>
Net assets, end of year	<u>\$ 2,081,410</u>	<u>\$ 8,680,655</u>	<u>\$ 10,763,065</u>

The accompanying notes are an integral part of this statement.

THE CHILDREN'S SCHOLARSHIP FUND

Statements of Cash Flows

For the years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 31,341,810	\$ 31,535,929
Investment and other income	11,065	43,372
Scholarships paid	(28,137,602)	(27,831,343)
Matching grants for program support	(412,694)	(494,371)
Cash paid to vendors, suppliers and employees	<u>(1,648,736)</u>	<u>(1,593,134)</u>
Net cash provided by operating activities	<u>1,153,843</u>	<u>1,660,453</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(11,114)</u>	<u>(49,646)</u>
Net increase in cash and cash equivalents	1,142,729	1,610,807
Cash and cash equivalents, beginning of year	<u>9,904,130</u>	<u>8,293,323</u>
Cash and cash equivalents, end of year	<u>\$ 11,046,859</u>	<u>\$ 9,904,130</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets	\$ 700,070	\$ 1,807,525
Adjustment to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	20,147	6,493
Change in present value discount and allowance	(62,188)	(3,407)
Change in discount allowance on scholarships and grants payable	1,845	8,788
Changes in assets and liabilities:		
Decrease (increase) in contributions receivable	556,773	(116,267)
Decrease in scholarships and grants payable	(19,715)	(173,673)
Decrease in prepaid expenses and other assets	527	840
(Decrease) increase in refundable advances	(6,420)	127,121
Increase (decrease) in accounts payable	3,332	(13,338)
(Decrease) increase in accrued expenses	<u>(40,528)</u>	<u>16,371</u>
Net cash provided by operating activities	<u>\$ 1,153,843</u>	<u>\$ 1,660,453</u>

The accompanying notes are an integral part of these statements.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2010 and 2009

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 help disadvantaged children gain access to the elementary schools of their choice. 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 111,000 children from low-income families have received tuition assistance through CSF grants. See Note 6 for additional information.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

In order to ensure observance of restrictions placed on the use of resources available to CSF, the Fund's accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.

The Fund did not have any permanently restricted net assets as of August 31, 2010 and 2009.

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 Financial Statements
August 31, 2010 and 2009

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	3 years
Furniture and fixtures	5 years
Leaschold improvements	Useful life of the asset or the life of the lease, whichever is shorter

Contributions

Contributions and unconditional promises to give are recorded at fair value when received. Unconditional promises to give with payments due in future years are reported as temporarily restricted contributions discounted to present value. 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. Conditional contributions are recorded when the conditions on which they depend are substantially met. Conditional contributions received in advance 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. 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, 2010 and 2009

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, 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

Accounting principles generally accepted in the United States of America require that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Fund has determined that its financial statements do not include any uncertain tax positions for the open tax years of 2010, 2009, 2008 and 2007.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of August 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Amounts expected to be collected:		
In one year or less	\$ 309,362	\$ 309,287
In greater than one year	<u>259,181</u>	<u>816,029</u>
	568,543	1,125,316
Less: Allowance for uncollectible amounts	(15,000)	(20,000)
Less: Discount to present value (at a discount rate of 4.5% in 2010 and 2009)	<u>(22,232)</u>	<u>(79,420)</u>
Contributions receivable, net	<u>\$ 531,311</u>	<u>\$ 1,025,896</u>

At August 31, 2010 and 2009, all of the net receivables have restrictions pertaining to specific scholarship programs.

In addition, as of August 31, 2010 CSF has received conditional promises totaling approximately \$31 million that are generally restricted for scholarship awards in specified communities. Pursuant to the terms of the grant agreements, a portion of these funds may also be used to provide matching grants to other scholarship organizations for program support costs. These gifts are primarily conditioned on satisfying matching fund requirements and accordingly have not been recognized in the accompanying financial statements.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2010 and 2009

4. PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Office and computer equipment	\$ 50,070	\$ 40,798
Leasehold improvements	<u>10,690</u>	<u>10,690</u>
	60,760	51,488
Less: Accumulated depreciation and amortization	<u>(25,297)</u>	<u>(6,992)</u>
Property and equipment, net	<u>\$ 35,463</u>	<u>\$ 44,496</u>

Depreciation expense for the years ended August 31, 2010 and 2009 was \$20,147 and \$6,493, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of approximately \$9,357,000 and \$8,681,000 at August 31, 2010 and 2009, respectively, are primarily available for scholarships and grants. Net assets were released from donor restrictions by satisfying the restricted purpose as follows:

	<u>2010</u>	<u>2009</u>
Scholarships and grants	\$ 28,119,732	\$ 27,666,458
Matching grants for program support costs	412,694	494,371
Expended for operating costs	<u>1,363,756</u>	<u>1,410,000</u>
	<u>\$ 29,896,182</u>	<u>\$ 29,570,829</u>

6. 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, 2010 and 2009, the total value of the scholarship payments made by CSF and its grantee scholarship organizations amounted to approximately \$43,080,000 and \$43,577,000, respectively. CSF distributed approximately \$28,138,000 during fiscal year 2010 and approximately \$27,831,000 of these awards during fiscal year 2009. The remaining \$14,942,000 in 2010 and \$15,746,000 in 2009 was funded by matching contributions received by the other scholarship organizations.

Additionally, for the years ended August 31, 2010 and 2009, CSF made grant payments to scholarship organizations totaling approximately \$413,000 and \$494,000, 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.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2010 and 2009

As of August 31, 2010 and 2009, CSF had unconditional scholarships and grants payable as follows:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 10,485	\$ 17,092
Due more than one year	18,953	32,061
	<u>29,438</u>	<u>49,153</u>
Less: Discount to present value (at a discount rate of 4.5% in 2010 and 2009)	(2,446)	(4,291)
Scholarships and grants payable, net	<u>\$ 26,992</u>	<u>\$ 44,862</u>

7. 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 IRS limitations. CSF incurred approximately \$41,000 and \$39,000 in pension expense relating to this plan for the years ended August 31, 2010 and 2009, respectively.

8. COMMITMENTS AND CONTINGENCIES

CSF leases office space in New York City. The lease expires in April 2012. Rent expense for the years ended August 31, 2010 and 2009 was approximately \$163,000 and \$158,000, respectively. The minimum annual future rental payments for the Fund's noncancelable operating lease at August 31, 2010 are as follows:

Year Ending August 31,	
2011	\$ 156,000
2012	106,000
	<u>\$ 262,000</u>

As of August 31, 2010, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$18.7 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, payments will be made over the remaining terms of the grants, which range from one to seven years.

9. SUBSEQUENT EVENTS

CSF evaluated its August 31, 2010 financial statements for subsequent events through November 15, 2010, 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.